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BC Oil and Gas Commission

2008/2009 Annual Service Plan Report

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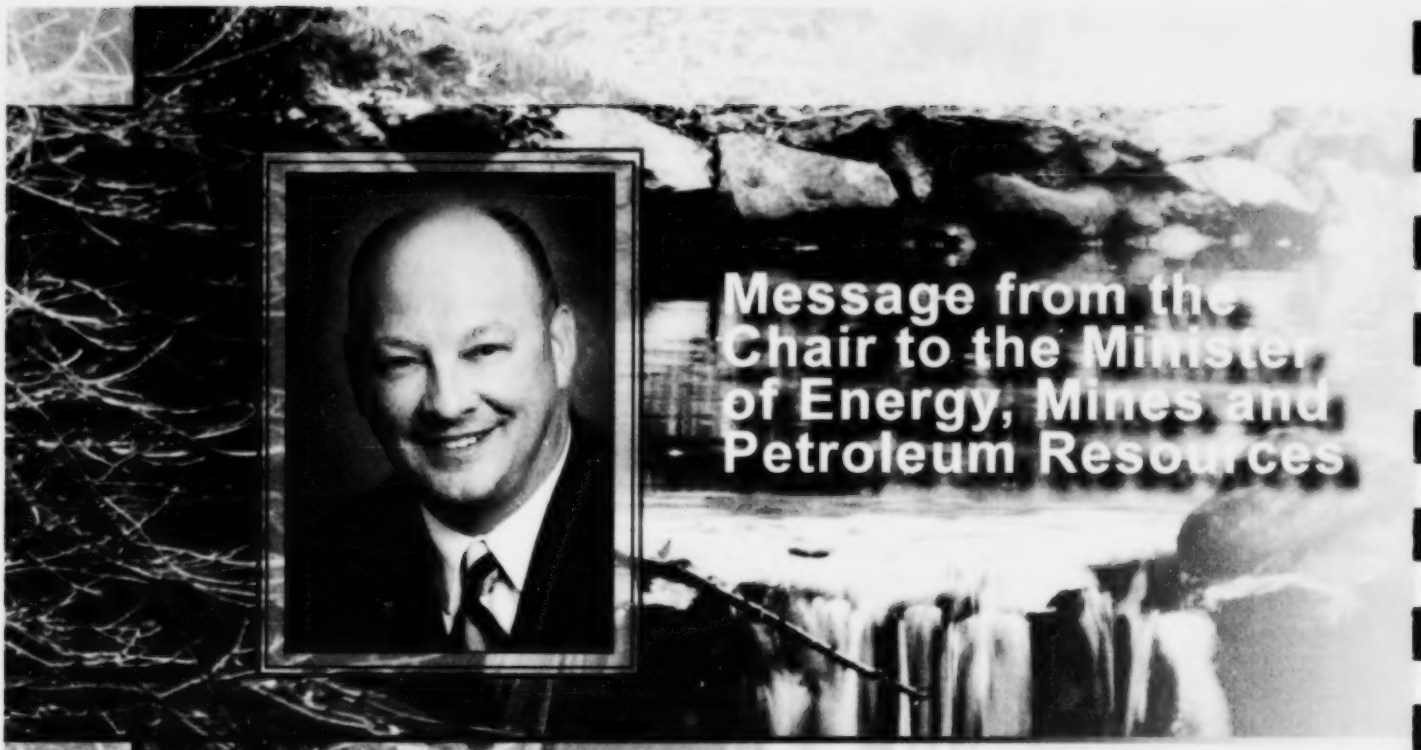


Message from the Chair to the Minister of Energy, Mines and Petroleum Resources

British Columbia

Celebrating 10 years Service Regulating British Columbia's Oil and Gas Sector

Oil and Gas Commission

I am pleased to present the BC Oil and Gas Commission's (Commission) 10th Anniversary Annual Service Plan Report. During 2008/09, the Commission continued to support the Province's Energy Plan and objectives by implementing flaring reduction guidelines and investing in measures to reduce its operational carbon footprint. This year also saw regulatory renewal with partner agencies to achieve a coordinated approach to site reclamation.

To address the sizeable opportunity of British Columbia's unconventional gas development the Commission is committed to ongoing assessment of regulatory practice to remain on the forefront of environmental consideration and resource conservation in North America.

While there has been some reduction in development activity, the Commission's medium to long term goal is to maintain an established resources and infrastructure capacity in order to respond quickly when the global investment climate improves.

Providing quality supportive client service remains a priority of the Commission. Decision making processes will continue to develop in support of operations and communities in which sector

activity takes place. Consultation Process Agreements (CPAs), signed with Treaty 8 First Nations partners continue to evolve and improve through implementation stages.

In the same regard the Commission has increased its service to community by adding additional community oriented staff and office space in Dawson Creek.

The Commission is poised to complete *Oil and Gas Activities Act* (OGAA) related regulations, update a number of business processes linked to the implementation of the new legislation and evaluate opportunities to have a more coordinated approach to development related to water, wildlife, land access and First Nations values.

A number of human resource initiatives support the organization in retaining employees; this includes implementing an effective performance appraisal system through the recognition and connection of competencies, technical skills and attendance with results. In addition, enhanced programs supporting the leadership development of high potential staff within the organization continues to provide supervisors with the training and tools required to manage operational issues.

Supplementing the skills development is wellness planning, physical fitness programs, and enhanced health services. These changes have contributed to positive Workplace Engagement Survey results.

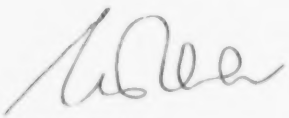
Moving forward, the overall executive focus for fiscal 2009/10 will be continued vertical and horizontal integration within the organization, increased transparency, and fiscal diligence, while maintaining the capacity gained through the past year's focus on leadership and supervisory development.

The goals and objectives reported on in this report are inter-reliant and reflect the cooperative nature of intergovernmental, First Nations, community and industry consultation and support. These goals guide the Commission and provide set criteria for the regulation of oil and gas activity while giving applicable performance measurement tools for the Commission's future planning.

The 2008/09 Oil and Gas Commission Annual Report was prepared under my direction in accordance with the *Budget Transparency and Accountability Act* and the BC 2008/09 Crown Corporation Annual Principles. I am accountable for the contents of the report, including what has been included in the report and how it has been communicated. The information presented reflects the actual performance of the Commission for the twelve months ended March 31, 2009 in relation to the February 2008 Service Plan. The measures presented are consistent with the Commission's mandate, goals and strategies, and focus on aspects critical to the organization's performance.

I am responsible for ensuring internal controls are in place to ensure performance information is measured and reported accurately and in a timely fashion.

All significant decisions, events and identified risks, as of June 18, 2009, have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, goals, strategies, measures or targets made since the February 2008 service plan were released and any significant limitations in the reliability of data are identified in the report.



Greg Reimer

Board Chair

BC Oil and Gas Commission

Corporate Governance

The Oil and Gas Commission (Commission) was established by the Province of British Columbia as a service delivery Crown Corporation. Its mandate is to regulate upstream oil and gas activity in British Columbia, including exploration, development, pipeline transportation to facilities, and reclamation activities.

Regulatory authority of the Commission is derived from legislation, including the:

- *Oil and Gas Commission Act*
- *Pipeline Act*
- *Petroleum and Natural Gas Act*
- *Land Act*
- *Forest Act*
- *Forest Practices Code of BC Act*
- *Heritage Conservation Act*
- *Environmental Management Act, and*
- *Water Act*

The *Oil and Gas Commission Act* (the Act) establishes the Commission as a Crown Corporation and provides for the establishment of internal authority structures and the funding of the organization through fees and levies. The Act and other legislation also give the Commission authority to regulate various aspects of oil and gas activity. To view guiding legislation, visit the Commission website at www.ogc.gov.bc.ca

The Commission is governed by a three-member Board of Directors that is responsible for directing and overseeing the organization's affairs and operations. Additionally, the Board:

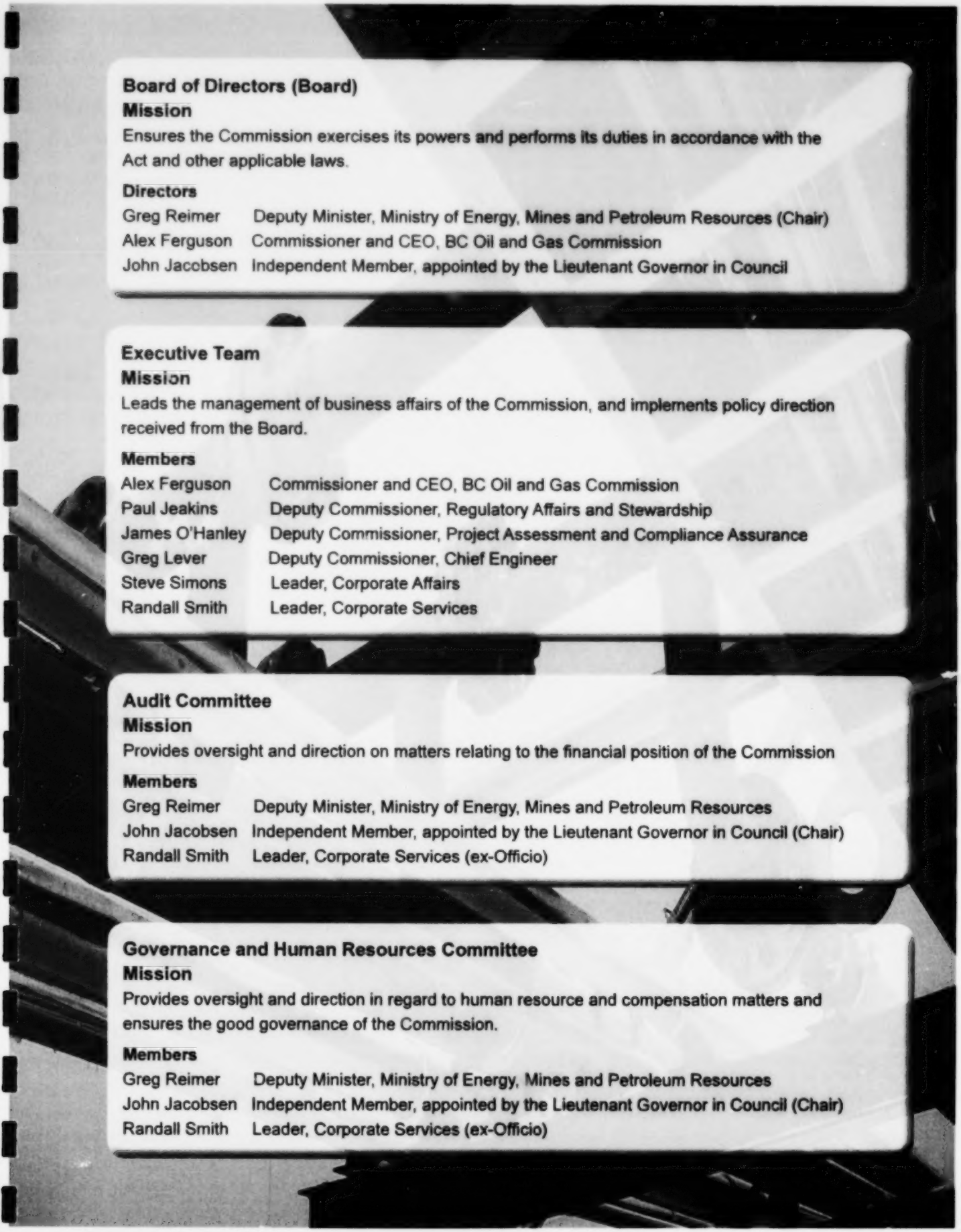
- Ensures the Commission exercises its powers in accordance with governing legislation;
- Ensures the Commission establishes appropriate internal controls and practices; and
- Approves the Commission's budget, Service Plans and regulatory initiatives.

The Board is made up of a chair and two directors. The Act, established by the Deputy Minister of the Ministry of Energy, Mines and Petroleum Resources as board chair, the Oil and Gas Commission Commissioner as vice chair, and a third independent member appointed by the Lieutenant Governor in Council. The independent member serves as a chair for the two sub-committees of the Board. The role of these sub-committees is to engage in review of policies, issues and corporate finances, and to make recommendations to the Board where decisions are made.

The Board of Directors provides policy direction and performance review, while operational matters are the responsibility of the Commissioner and the executive team, as shown on the following page.

Terms of Reference for the Board and sub-committees are online: https://www.ogc.gov.bc.ca

The Governance policies and practices of the Oil and Gas Commission and the Board of Directors comply with the Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations (Best Practice Guidelines) February 2005 issued by the Board Resourcing and Development Office (BRDO), Office of the Premier of British Columbia.



Board of Directors (Board)

Mission

Ensures the Commission exercises its powers and performs its duties in accordance with the Act and other applicable laws.

Directors

Greg Reimer	Deputy Minister, Ministry of Energy, Mines and Petroleum Resources (Chair)
Alex Ferguson	Commissioner and CEO, BC Oil and Gas Commission
John Jacobsen	Independent Member, appointed by the Lieutenant Governor in Council

Executive Team

Mission

Leads the management of business affairs of the Commission, and implements policy direction received from the Board.

Members

Alex Ferguson	Commissioner and CEO, BC Oil and Gas Commission
Paul Jeakins	Deputy Commissioner, Regulatory Affairs and Stewardship
James O'Hanley	Deputy Commissioner, Project Assessment and Compliance Assurance
Greg Lever	Deputy Commissioner, Chief Engineer
Steve Simons	Leader, Corporate Affairs
Randall Smith	Leader, Corporate Services

Audit Committee

Mission

Provides oversight and direction on matters relating to the financial position of the Commission

Members

Greg Reimer	Deputy Minister, Ministry of Energy, Mines and Petroleum Resources
John Jacobsen	Independent Member, appointed by the Lieutenant Governor in Council (Chair)
Randall Smith	Leader, Corporate Services (ex-Officio)

Governance and Human Resources Committee

Mission

Provides oversight and direction in regard to human resource and compensation matters and ensures the good governance of the Commission.

Members

Greg Reimer	Deputy Minister, Ministry of Energy, Mines and Petroleum Resources
John Jacobsen	Independent Member, appointed by the Lieutenant Governor in Council (Chair)
Randall Smith	Leader, Corporate Services (ex-Officio)

Organizational Structure

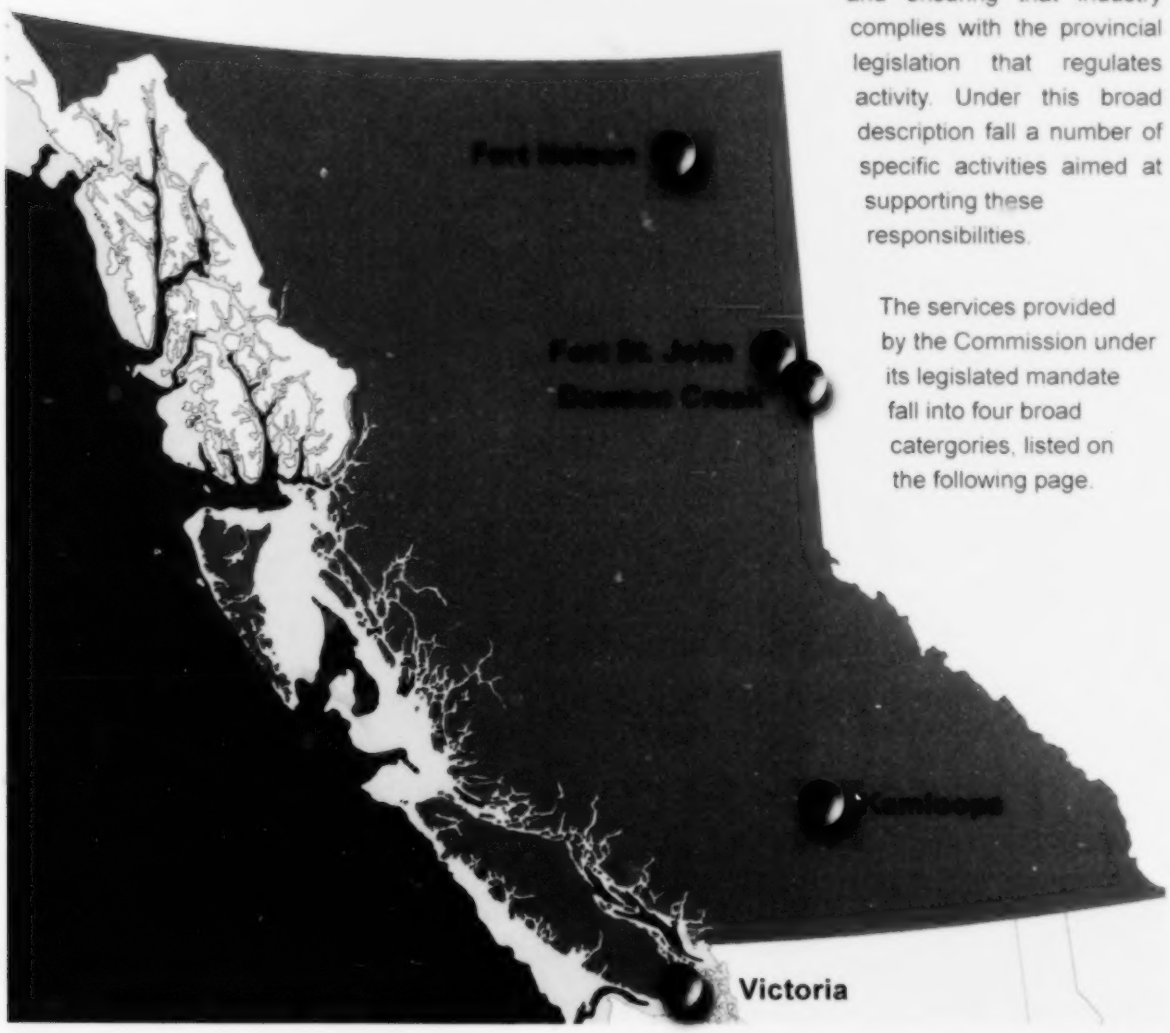
The Commission currently employs approximately 180 employees in a structure based on functional operational responsibility and support services. Three operational divisions include Engineering, Project Assessment and Compliance Assurance, and Regulatory Affairs and Stewardship. Support divisions include Corporate Services and Corporate Affairs.

The Commission has five offices in British Columbia. The operations centre of the Commission is located in Fort St. John, the heart of oil and gas activity for the province. The majority of the Commission's employees operate from this location.

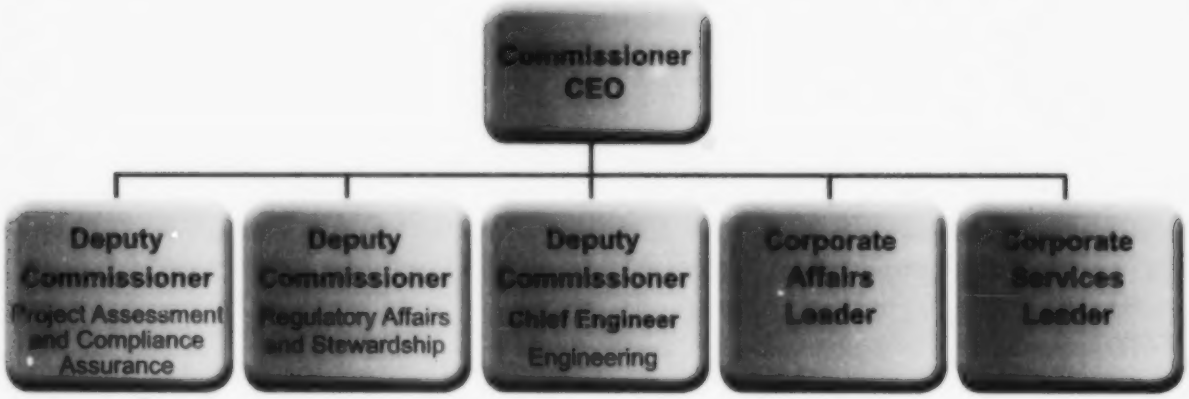
The Commission recently created office space in Dawson Creek to better service the Montney gas play. The map provided below indicates distribution of Commission locations across the province.

The Commission's core function is to regulate oil and gas activity throughout British Columbia by reviewing and assessing industry activity, consulting with First Nations, and ensuring that industry complies with the provincial legislation that regulates activity. Under this broad description fall a number of specific activities aimed at supporting these responsibilities.

The services provided by the Commission under its legislated mandate fall into four broad catergories, listed on the following page.



Organization Overview



COMMISSION SERVICES

REVIEWING and assessing applications for oil and gas activities and issuing approvals when appropriate. Applications for:

- wells
- pipelines and facilities
- geophysical activities
- roads
- engineering and geology
- transfer of assets

The Commission liaises directly with industry representatives for most oil and gas activity applications and, where necessary, manages relationships with engineering partners and surveyors.

ENSURING INDUSTRY COMPLIANCE with legislative, regulatory and permit-specific requirements, in part through inspections and other monitoring and enforcement activities. Qualified Commission inspectors attend oil and gas activity sites to ensure operations are proceeding in accordance with applicable regulations.

COMPLETING FIRST NATIONS CONSULTATION on activity applications. Consultation relationships with First Nations in Northeast British Columbia are guided by negotiated Consultation Process Agreements (CPAs).

COOPERATING WITH PARTNER AGENCIES such as the Ministry of Energy, Mines and Petroleum Resources, Ministry of Environment, Ministry of Agriculture and Lands, Ministry of Forests and Range, and others to ensure effective delivery of government policy, including goals in the 2007 BC Energy Plan.

Through all of these activities, the Commission protects the public interest. Environmental interests such as appropriate land use activities are protected and, as appropriate, balanced with financial interests, including revenue to the Crown.

These interests are protected through the implementation of guiding legislation, to ensure that the public purpose is served. Table 1 (pg 13) shows the Commission's mandate as outlined in legislation, and the specific activities that support delivery of the mandate.

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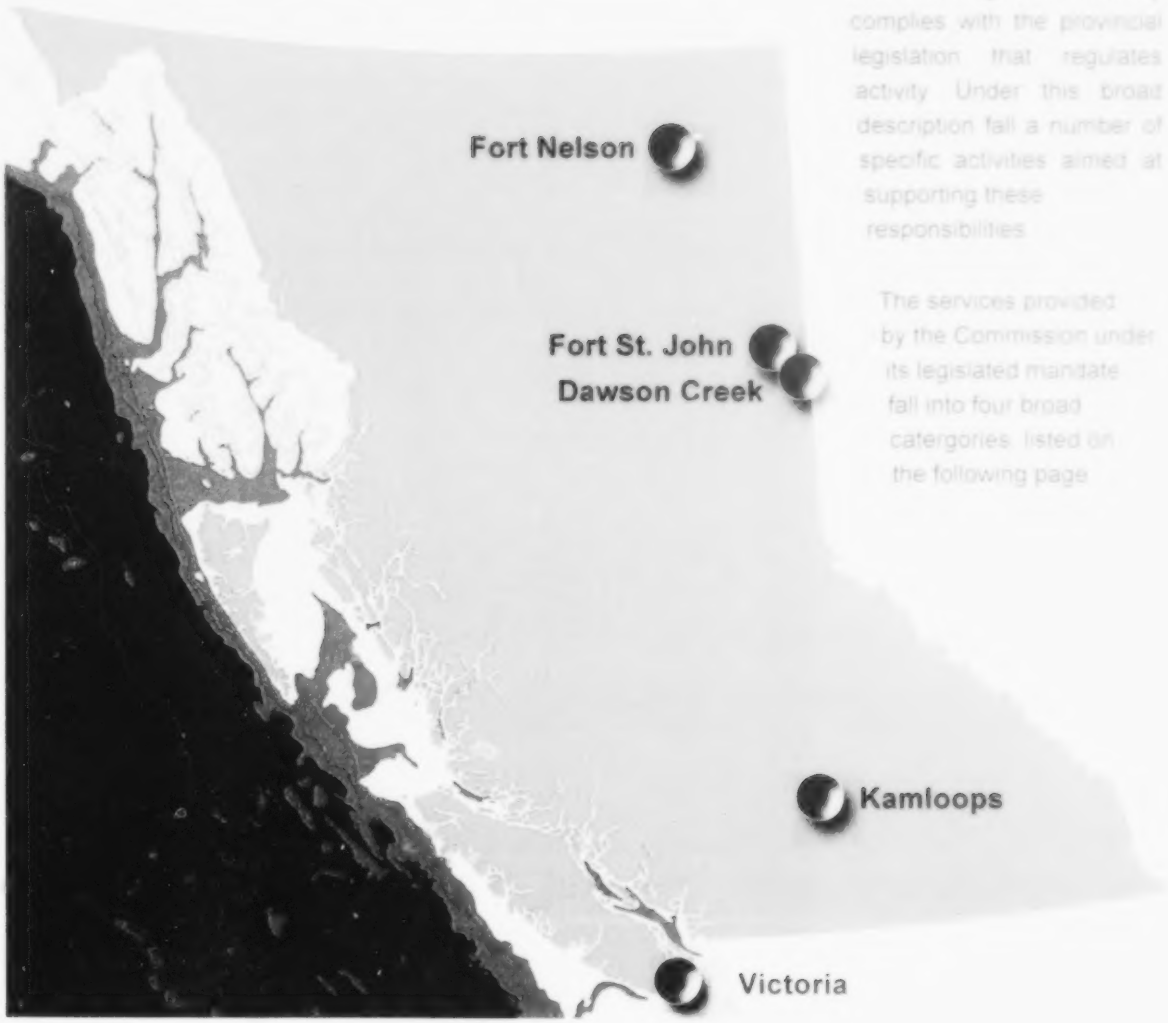
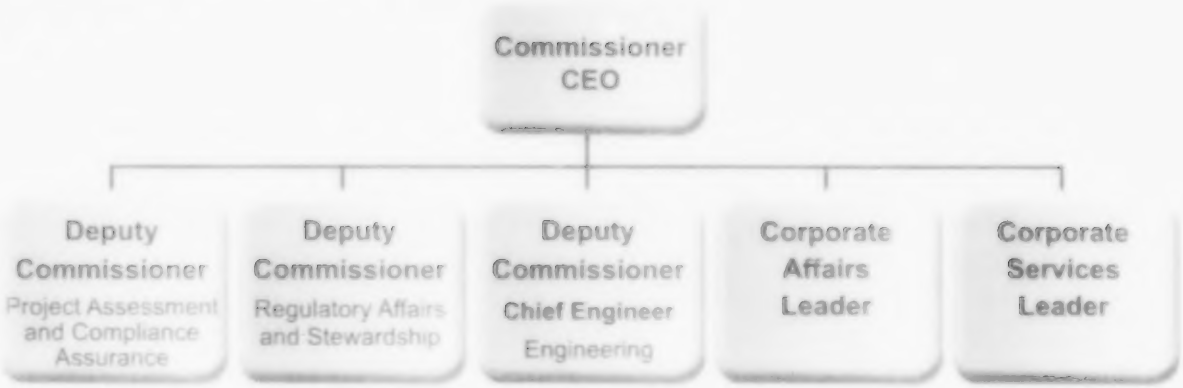


Organization Overview



Continued Changes to Commission Service Delivery

The Commission continues to made adjustments to enhance service delivery based on changes in the operating environment. A summary of the changes is provided below.

Enhanced Planning process

The Commission is often required to respond to time-critical events. In order to provide greater consistency in the way the Commission responds to events, the Commission has increased its focus on planning for both the near and longer term, through enhanced business planning and performance management processes.

First Nations Consultation Process Agreements

The Commission continues to work with First Nations in the development of CPA implementation strategies. CPAs encourage industry engagement with First Nations prior to applications being submitted to the Commission. Through early engagement, industry can improve participation with First Nations and consultation timelines. For more information on these agreements, visit www.ogc.gov.bc.ca.

Enhanced Emergency Management Planning (EMP)

To mitigate the potential consequences of oil and gas related incidents, the Commission requires operators in British Columbia to establish emergency preparedness plans for facilities, pipelines and wells. In the case of an incident, the Commission's responsibility is to ensure that companies activate these plans effectively, thereby contributing to public confidence in the government's requirements for public health and safety.

The profile of the Commission's role in EMP has been raised over the last year, through extensive training and increased interagency cooperation. These efforts have improved awareness of the role of the Commission while maintaining a state of readiness. More information on the Commission EMP program is available on the Commission website: www.ogc.gov.bc.ca

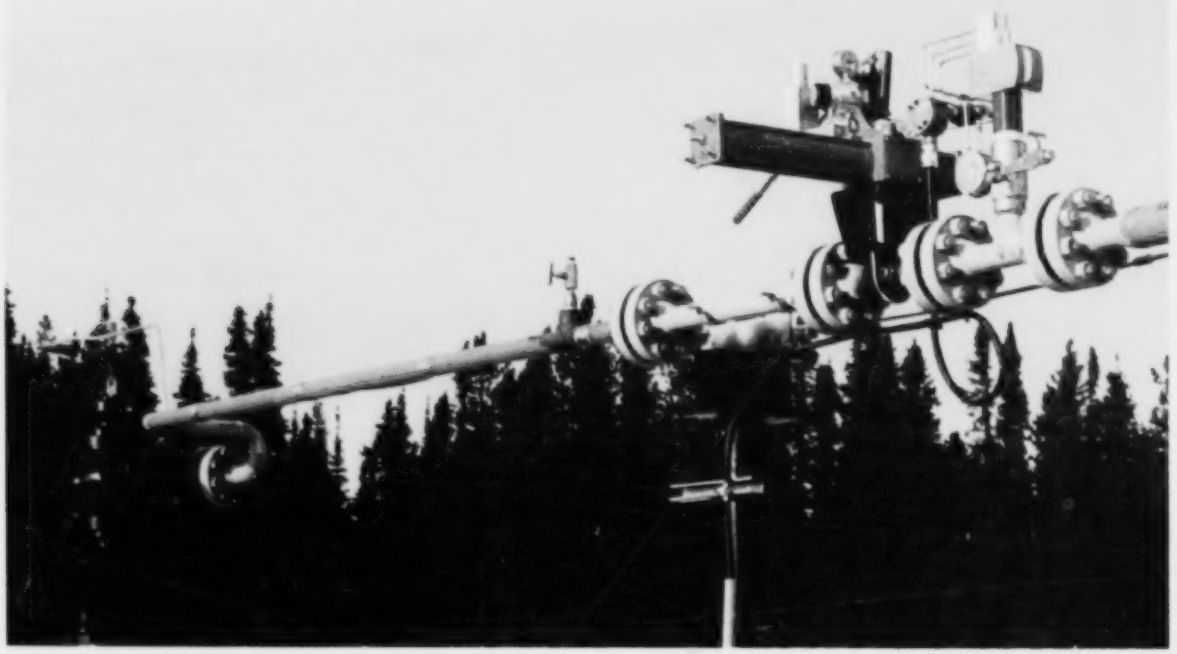


Table 1

Section 3 of the Oil and Gas Commission Act

	Commission Activities:
(a) regulate oil and gas activites and pipelines in British Columbia in a manner that:	
(i) provides for the sound development of the oil and gas sector by fostering a healthy environment, a sound economy and social well being;	• Regulatory Development and Affairs • Assess Drilling Deposit • Regulate Drilling Waste • Regulate Air Discharge • Estimate Reclamation Costs • Process Certificates of Restoration • Orphan Site Management • Implement the Science and Community Environmental Knowledge (SCEK) Fund
(ii) conserves oil and gas resources in British Columbia;	• Geological and Engineering Evalutations • Oil Reserve Analysis • Inventory and Map Hydrocarbons • Well Evaluation • Manage Subsurface Technical Information • Conduct Production Metering Audits
(iii) ensures safe and efficient practices; and,	• Conduct Inspections • Pipeline Integrity Managment • Ensure Appropriate Complaint Responses • Ensure Appropriate Incident Responses • Implement Emergency Management and Response Programs • Health and Safety Program • Investigations and Compliance • Recommend Industry Practices
(iv) assists owners of oil and gas resources to participate equitably in the production of shared pools of oil and gas.	• Conduct Correlative Rights Review
(b) provides for effective and efficient processes for the review of applications related to oil and gas activities or pipelines, and to ensure that applications that are approved are in the public interest having regard to environmental, economic and social effects;	• Review Applications for Activity • Review Sour Wells Classifications • Transer Assets • Land Administration • Enable Public Engagement • Process Improvement
(c) encourage the participation of First Nations and Aboriginal peoples in processes affecting them;	• Aboriginal Relations • First Nations Consultation • Develop and Implement Agreements with First Nations
(d) participate in planning processes; and,	• Memorandum of Understanding Development • Quality Assurance • Participate in Inter-Agency Activies
(e) undertake programs of education and communication in order to advance safe and efficient practices and the other purposes of the Commission.	• Public Engagement and Dispute Resolution • Conduct Landowner Liaison Activities • Advisory Committee and Practice Advisory Group • Respond to Requests for Information

Activities undertaken by the Commission within this mandate ensure the safe operation of oil and gas related activities in the province while ecouraging a balance between economic, social and environmental benefits.

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Science and Community Environmental Knowledge (SCEK) Fund

The purpose of the SCEK Fund is to support and facilitate research concerning practical ways of addressing environmental issues related to oil and gas exploration in British Columbia. The vision for this fund is to continuously improve understanding and management of the impacts of oil and gas activites in British Columbia. Study findings are incorporated, where appropriate, into practices and regulations.

Orphan Fund

On April 1, 2006, legislation for a newly created Orphan Site Reclamation Fund was brought into force with an amendment to the *Oil and Gas Commission Act* and and amendment to the Oil and Gas Commission Levy Regulation. The Orphan Fund is administered by the Commission and is intended to pay for the reclamation of orphan oil and gas sites (sites that no longer have an owner associated with them).

Principle Partners, Clients and Stakeholders

Many individuals and groups are the direct beneficiaries of services provided by the Commission.

- As the provincial regulator of oil and gas activity in British Columbia, value service is provided in many forms, to various stakeholders throughout the province. The Commission maintains a unique relationship with First Nations and has built on ten years of partnerships to enhance the quality of decisions made by the Commission. Outside Northeast British Columbia, the Commission also interfaces with First Nations on areas of oil and gas activity.
- The Commission maintains a number of working agreements and Memorandums of Understanding (MOUs) that support and define the relationships and delegated authorities with partner agencies. The agreements support the Commission's authority with respect to upholding the values associated with the partner agencies' mandates.
- Commission employees ensure resources are recovered in the safest and most effective possible manner and that liabilities incurred through these activities are borne by the operators. In this capacity, the Commission regularly interfaces with industry, First Nations, landowners, the public, other government agencies, and corporate peers in other jurisdictions.
- Many partners use information collected and maintained by the Commission. For example, the BC Assessment Authority accesses information collected by the Commission in the development of annual assessment rolls and the Integrated Land Management Bureau uses Commission information to update provincial land resource maps.
- The Commission regularly interfaces with the oil and gas industry - the primary users of the Commission's services. Such interactions range from sharing information to soliciting recommendations for best practices.
- The Commission maintains a strong voice in the communities where oil and gas activity occurs. This is done primarily through efforts of the Commission's Landowner Liaison Inspectors, whose job is to assist landowners in gaining a better understanding of the oil and gas industry, the role of the Commission and the role of other government agencies.

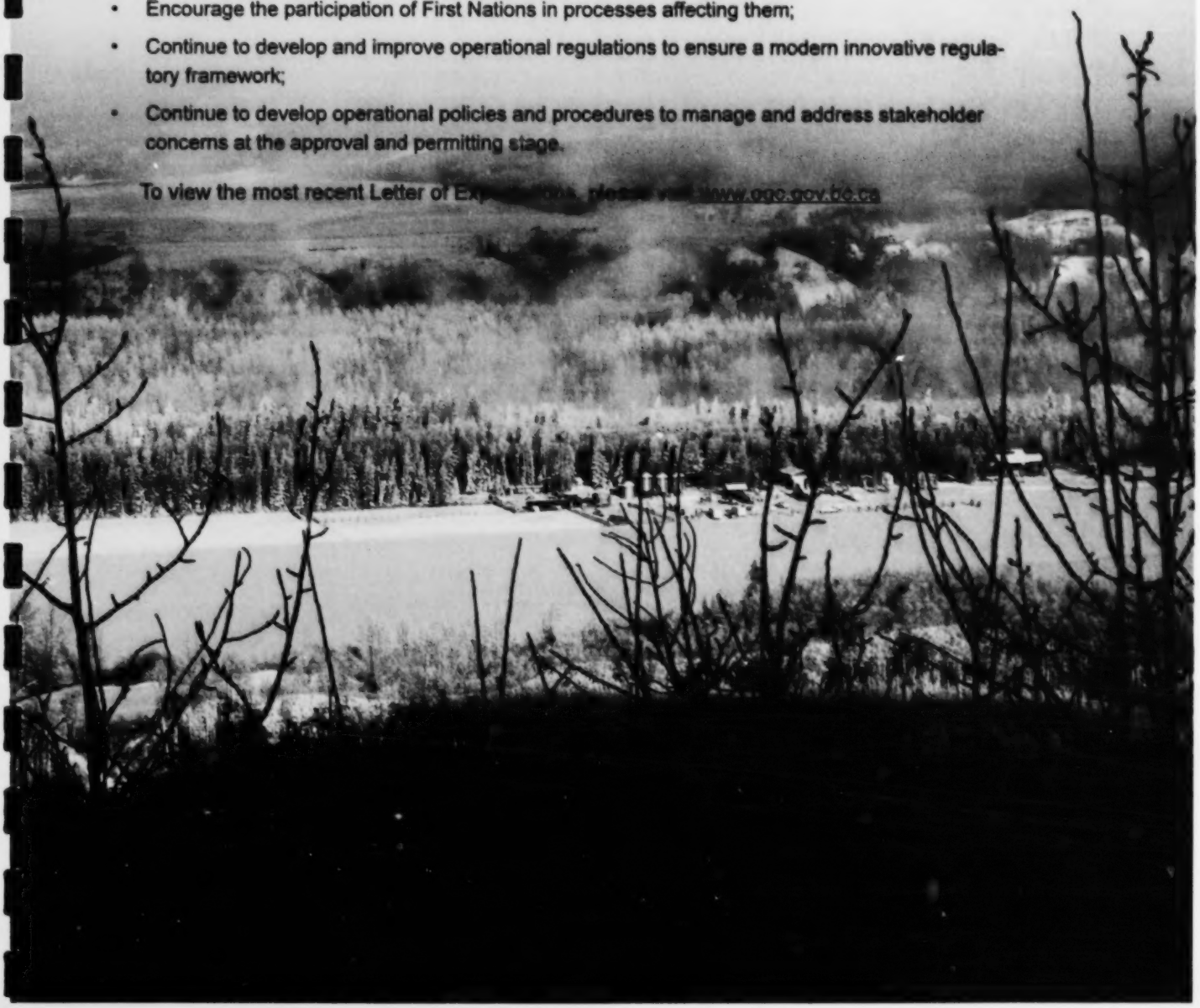
Shareholder's Letter of Expectations

Strategic direction and performance expectations from the Government of British Columbia for the Commission are outlined in a Shareholder's Letter of Expectations. This document is a public agreement that outlines performance expectations, public policy issues and strategic priorities. This clarification of roles is provided to ensure alignement of Commission activities with overarching provincial goals.

The most recent Letter of Expectations was signed on January 11, 2009 and is reviewed annually. It outlines the Commission's role in delivering commitments on the following items:

- Support successful implementation of the province's 2007 Energy Plan;
- Work to ensure that all routine flaring at oil and gas production wells and production facilities will be eliminated by 2016 with an interim reduction of 50 percent by 2011;
- Encourage the participation of First Nations in processes affecting them;
- Continue to develop and improve operational regulations to ensure a modern innovative regulatory framework;
- Continue to develop operational policies and procedures to manage and address stakeholder concerns at the approval and permitting stage.

To view the most recent Letter of Expectations, please visit www.ogc.gov.bc.ca



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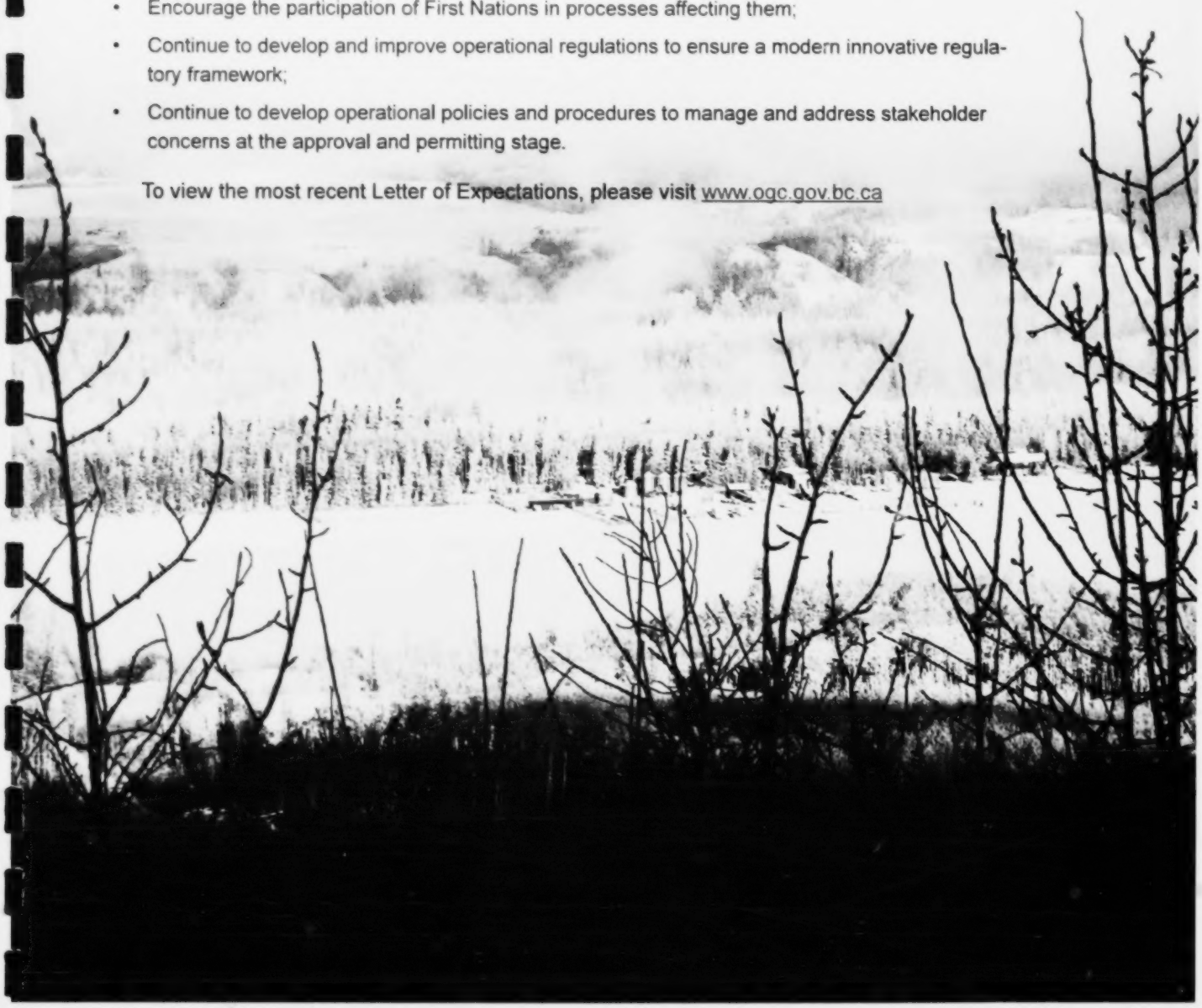


Report on Performance

Introduction

This Annual Report provides a snapshot of the performance of the Commission on its activities to achieve organizational goals, through implementation of objectives and strategies, and as measured through performance indicators. Goals, objectives, strategies and measures have been selected to ensure that the Commission achieves its vision and values.

Vision

"*To be the innovative regulatory leader, respected by stakeholders, First Nations and clients.*"

Values

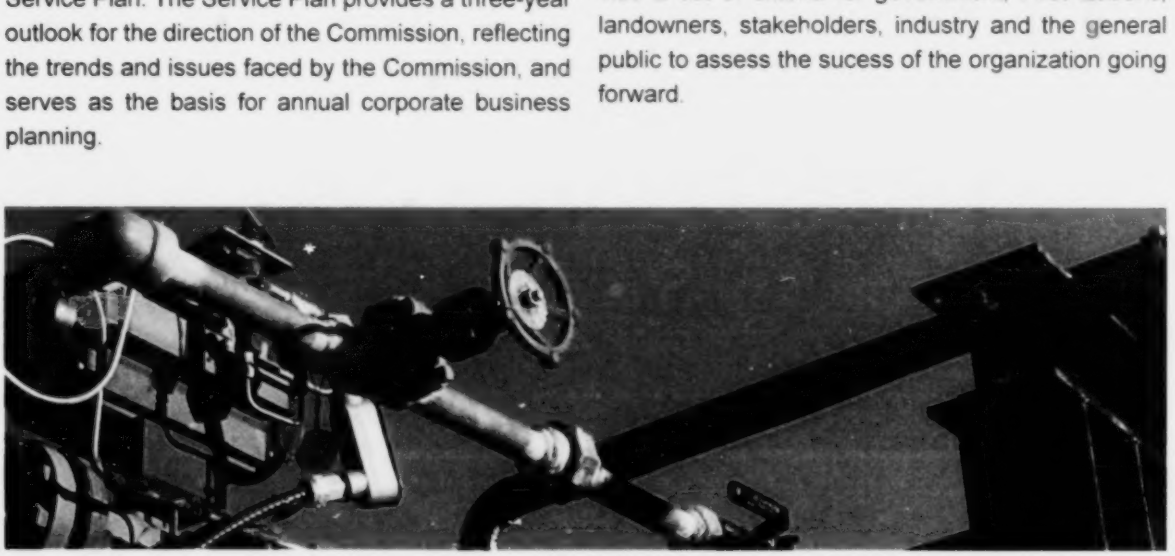
"*Regulating oil and gas activity through fair, consistent, responsible and transparent stakeholder engagement; for the benefit of British Columbians and by balancing environmental, economic and social outcomes.*"

The performance of the Commission is based on the goals and expectations that were set in the 2008/09 Service Plan. The Service Plan provides a three-year outlook for the direction of the Commission, reflecting the trends and issues faced by the Commission, and serves as the basis for annual corporate business planning.

The goals as identified in the 2008/09 Service Plan are:

1. The Commission protects the interests of the people of British Columbia.
2. The Commission makes quality decisions in a timely manner.
3. The Commission is recognized as a service oriented organization.
4. The Commission works with government to continually improve the regulatory environment.
5. The Commission is a great place to work.

These goals represent the foundation for the direction of the Commission based on existing legislation and a dynamic and evolving operating environment. The goals are inter-dependent and reflect the multi-faceted nature of the Commission's regulatory mandate. These goals also clearly capture the indended purpose of the Commission and provide a set of criteria for government, First Nations, landowners, stakeholders, industry and the general public to assess the sucess of the organization going forward.



Goal 1 protects the interests of the people of British Columbia and is the result of many activites undertaken by the Commission in the public interest. These include public engagement, application review, compliance and enforcement, engineering reviews, and emergency management functions. This also includes resource conservation activites which ensure that oil and gas resources are extracted in the most efficient way possible, and environmental management activities which ensure that environmental standards are achieved. This goal provides clarity about the public purpose served by the Commission and combines the intent behind the mandate for public safety, environmental protection and resource conservation.

Quality decisions, as described in Goal 2 relate to the statutory decision making authority that is delegated to the Commission through legislation. The Commission endeavors to adjudicate activity applications in a timely manner based on available information. Activities included under this goal are: application processing, transfer of assets, general management of internal operations, and capturing and documenting corporate knowledge.

Goal 3 reflects the Commission's aim to proactively set a standard of excellence in service for clients. Clients are considered to be all people in British Columbia, including communities, First Nations and stakeholders. Activities included under this goal are FrontCounter BC, landowner liaison services and alternative dispute resolution, among others.

Goal 4 speaks to the efforts of the Commission to work with goverment ministries to improve the regulatory environment for oil and gas activites in the province. There are many activites that the Commission undertakes to achieve this goal, including the development of MOUs with partner agencies, establishing and implementing agreements with First Nations, leading the development of regulations within the Commission's authority and implementing government policy.

Goal 5 represents the Commission's commitment to improve the quality of work experience for employees by instilling a culture of "the Commission is a great place to work". Activities under this goal include the development of organizational training and performance measurement plans, implementing a robust health and safety program, and engaging staff across the organization in the development of these goals, objectives and strategies.

Objectives

The Commission's objectives were developed to support these goals. They are based on direction received from the annual review process. The objectives of the Commission associated with each goal are:

Goal 1

- Maintain public safety and safety of operations
- Minimize potential for negative environmental effects from oil and gas activities
- Ensure optimal recovery of oil and gas resources over time

Goal 2

- Decisions consistent with the complexity of the operating environment
- Maintain consistency of information and processes used in decision making

Goal 3

- Build and sustain relationships of trust and confidence with communities, First Nations and stakeholders
- Enhance the culture of service excellence

Goal 4

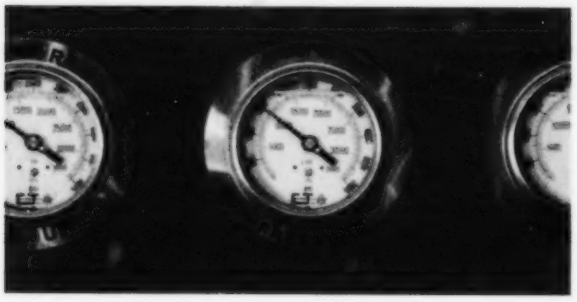
- Contribute to the ongoing development of an innovative and efficient regulatory framework for oil and gas activities in British Columbia
- Support and environment where innovative practices can be brought forward

Goal 5

- Support a healthy and safe work environment
- Ensure appropriate infrastructure and support services are in place to allow for development and growth of Commission employees

The objectives included under Goal 1 set out the mandate of the Commission as outlined in legislation. Objectives in Goal 2 highlight the priority to be both aware of the external environment, and to also ensure that internal capacity is present to support decisions. In much the same way, Goal 3 outlines internal and external components to build and sustain quality service delivery standards. Objectives of Goal 4 highlight the Commission's priority to build innovative activites into aspects of regulation, and objectives in Goal 5 outline the ways in which the Commission will ensure our working environment serves the needs of Commission employees.

In the 2008/09 Service Plan, strategies and objectives were chosen to reflect the direction for activities of the Commission based on an annual review of the operating environment. Tactical direction for the Commisison is outlined in the corporate Business Plan, which is also updated annually and provides a three year outlook, outlining the specific processes and projects that will be undertaken to achieve the goals of the Service Plan. For more information on the Commission's Business Plan, visit the Oil and Gas Commission website: www.ogc.gov.bc.ca.



For each goal, measures have been chosen and targets have been set to outline what success looks like for each goal. Actual results are shown for the previous and current year, and targets are shown for the upcoming three years, to provide a complete performance picture for the Commission. The measures have been selected from numerous possible indicators used to track and guide overall performance.

The Commission strives to measure both outputs and outcomes of activities, and to incorporate the eight reporting principles, as outlined by the Office of the Auditor General of British Columbia: www.bcauditor.com.

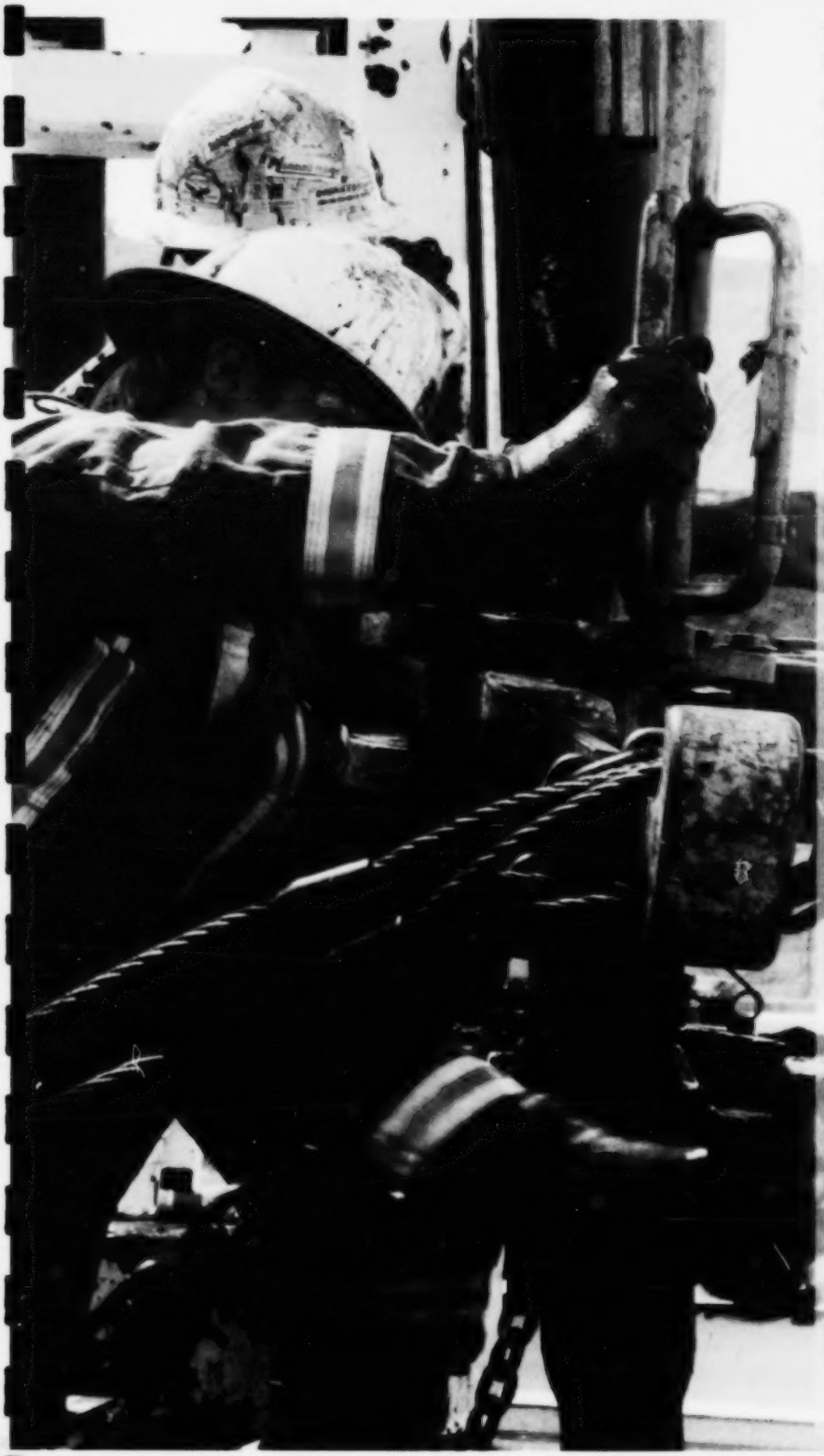
The majority of Commission measurement information is collected through database systems of the Commission, including the IRIS and KERMIT systems, and the financial and human resource information systems.

Measurement

The Commission tracks data for performance measures from a number of sources, including:

- Application and compliance statistics, which are benchmarked against comparable jurisdictions;
- Engineering information related to oil and gas operations in British Columbia;
- Human resource information, including tracking of employee development;
- Information from surveys, including employee engagement and client satisfaction.

Organizational performance is measured at least quarterly. Where possible, benchmark and baseline information is reviewed to provide context to the results seen at the Commission. Detailed information related to the methodology of Commission performance measures is maintained and updated as necessary. The Commission continues to work to enhance and develop our business applications to refine and improve business processes and enable the electronic submission of oil and gas data as well as applications. We continue to develop and enhance our business applications system to meet our performance targets. In addition, the Commission continues to have strong relationships with external agencies as well as other government ministries to improve the quality of data used to track and measure progress, including the Integrated Land Management Bureau and GeoBC among others.



The components of service planning, business planning, budgeting and performance management are closely integrated. As a result, when an objective is revised or replaced, so must the strategies and performance measures associated with it be revised or replaced. This cycle of continuous improvement that underpins both effective public service planning and meaningful, accountable public performance reporting.

The information in the following tables presents the objectives, strategies and performance measures of each of the Commission's Goals.

Benchmarking

The Commission benchmarks internal valuation processes and practices against selected North American oil and gas regulators and provincial Crown Corporations and public agencies. In 2008/09, the Commission introduced new performance measures in its organizational Service Plan.

The Commission occupies a unique role with its single-window service to industry. Research confirms that no oil and gas regulatory agency in North America provides the range of services that the Commission provides. As shown in previous annual reports, performance on Commission goals, objectives, strategies and measures are outlined in the following section in table format.

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The Commission protects the interests of the people of British Columbia

Objectives

- Maintain public safety and safety of operations
- Minimize potential for negative environmental effects from oil and gas activities
- Ensure optimal recovery of oil and gas resources over time

Strategies

Achieved:

- Develop, implement and maintain internal systems and processes for managing risks to public interests
- Maintain emergency management and emergency response planning framework
- Develop innovative reservoir management techniques for efficient and effective extraction of petroleum resources for unconventional gas

Performance Measures	Results		Targets		
	2007/08	2008/09	2008/09	2009/10	2010/11
Major Compliance - exploration and development Baseline: 79% (2001/02) Benchmark: 97.7% (Alberta ERCB, 2004)	98%	95% Target met	95%	96%	97%
Major Compliance - facility, operations Baseline: 93% (2002/03) Benchmark: 97.7% (Alberta ERCB, 2004)	98%	95% Target substantially met	97%		

All the strategies related to this goal were achieved through the core operational activities of the Commission. The performance target was substantially met.

Major compliance - exploration and development, and Major compliance - facility, operations performance were not measured separately, so identical results were attained and shared. Targets for these performance measures were set based on a continuation of trends from previous years. Compliance process is carried out by geographical region rather than by function. Compliance has moved to a focused inspection process, based on risk, rather than just more inspections.

Additionally, inspectors are supported by technical advisors for more in-depth inspection issues.

The Commission has become more effective and efficient with inspections, ensuring protection of public and the environment.

Regulatory compliance commences as soon as an application for industrial activity is submitted. Prior to any industrial activity taking place, applications are reviewed to ensure legislative requirements and stakeholders concerns have been accounted for. During project reviews, modifications to an application may be requested by the Commission based on First Nation consultation, landowner concern or technical assessment results.

All compliance information for performance measures of this goal is drawn from the Commission's KERMIT database, used to manage applications and inspections, except for information on non-site inspections, which is drawn from the IRIS database.

The Commission makes quality decisions in a timely manner

Objectives

- Decisions consistent with the complexity of the operating environment
- Maintain consistency of information and processes used in decision making

Strategies

Achieved:

- Implement process improvement initiatives
- Communicate the role of the Commission to First Nations, industry, public and landowners

Ongoing:

- Strengthen organizational and employee capacity for effective issue management and decision making

Performance Measures	Results		Targets		
	2007/08	2008/09	2008/09	2009/10	2010/11
Calendar days to process new applications Baseline: 33 calendar days (2001/02) Benchmark: 30 days (Colorado Oil and Gas Conservation Commission Strategic Plan)	24	24 Target substantially met	21	21	21
Internal processes conforming to specified quality assurance criteria	NEW	33% Target not met	90%	90%	90%

The Commission is a decision-making agency, and therefore a goal and performance measure associated with decision timelines gives a reasonable indicator of the performance of the Commission on its core activities. It also provides a certainty to industry groups for operational planning activities.

The number of calendar days to assess new applications remained at 24 calendar days. This result is the same as 2007/08 and did not meet the target of 21 calendar days outlined above. Given the uncertainty of economic conditions this past year, many industry operators were changing operating plans on a relatively frequent basis. The Commission responded to this by shifting permit application priorities. Although this resulted in a slight increase in approval timelines, it also resulted in a highly responsive level of service to industry while continuing to meet the expectations of First Nations and other stakeholders.

Management will continue to closely monitor processing timelines. The Commission will also have discussions with clients to determine if there is a more meaningful measure of efficiency available.

In an effort to ensure the efficiency of the Commission's processes, internal reviews are carried out to determine whether they conform to specified quality assurance criteria. The quality assurance criteria include the concise documentation and review of the current Commission processes, the analysis of potential process improvements, and the implementation of recommendations. Commission staff members dedicated to process improvement initiatives coordinate with individual process owners to perform internal process reviews. A quality assurance based performance measure was originally planned for 2008/09 and continues to evolve. However, given the economic turndown and the Commission's limited resources, it was decided that development would be deferred, and for 2008/09 the Commission completed reviews on only 33% of its core processes.

The Commission is recognized as a service oriented organization

Objectives

- Build and sustain relationships of trust and confidence with communities, First Nations and stakeholders
- Enhance the culture of service excellence

Strategies

Achieved

- Apply previous learning when developing new partnerships with First Nations
- Ensure Commission services are readily and consistently available
- Increase the Commission's profile
- Integrate FrontCounter BC with Commission operations

Ongoing

- Ensure consistent and transparent reporting

Performance Measures	Results		Targets		
	2007/08	2008/09	2008/09	2009/10	2010/11
Percentage of applications responded to by First Nations Baseline: 75% (2001/02) Benchmark: n/a	76%	75% Target substantially met	84%	84%	85%
Client Satisfaction among all surveyed Baseline: 89% (2006/07) Benchmark: 76% (Alberta Energy Utilities Board (AEUB)	82%	82% (based on 2007/08) See below	87%	89	91%
Number of community awareness meetings conducted Baseline: 10 (2007/08) Benchmark: n/a	10	10 Target met	10	11	12

As a regulator, the Commission continually evolves relationships with key stakeholders and partners as measured through Goal 3. All strategies of the 2008/09 Service Plan were either achieved or reflect ongoing activities of the Commission. As a Crown Corporation, the Commission's accountabilities extend to affected communities, First Nations, client companies and their representative associations. All of these constituent have participated in client surveys.

The result for the first performance measure has been maintained from the previous year. While capacity issues remain a concern for many First Nations, new CPAs established with First Nations in Northeast British Columbia and implemented in 2008/09 provide increased certainty in consultation relationships for both parties. Applications for activity are managed in both KERMIT and IRIS databases, therefore results are drawn from both sources depending on the application type. Considering the number of interactions the Commission has with First Nations, a 75% response rate is considered as substantially meeting its goal. The Commission continues to provide the opportunity for First Nations to comment on major changes to policy and procedures that may significantly affect them including OGAA regulations and information notes.

Client satisfaction provides a measure of the quality of information perceived by stakeholders. Due to consistent trends in prior years and fiscal constraint, the Commission did not conduct a Client Satisfaction survey in 2008/2009. In 2009/10 the Commission plans to again contact stakeholders using an independent consultant to administer survey results.

The Commission conducted Community Awareness Meetings (CAMs) as an educational service to stakeholders and continues to do so.

The Commission continually improves the regulatory environment

Objectives

- Contribute to the ongoing development of an innovative and efficient regulatory framework for oil and gas activities in British Columbia
- Support an environment where innovative practices can be brought forward

Strategies

Achieved

- Develop and document relationships with partner ministries and agencies
- Communicate a broader level of understanding of the oil and gas regulatory system with stakeholders and partner agencies
- Utilize available academic, research and development funds in advancing best practices
- Lead the development of regulations within the Commission's mandate and responsibilities

Performance Measures	Results		Targets		
	2007/08	2008/09	2008/09	2009/10	2010/11
Number of updated MOUs or working agreements with partner agencies Baseline: 18 (total number of MOUs at 2007/08) Benchmark: n/a	2	2	2	2	2
Number of new MOUs or working agreements with partner agencies Baseline: 18 (total number of MOUs at 2007/08) Benchmark: n/a	2	2	2	2	2
Client satisfaction (among partners with whom the Commission holds MOUs)	n/a NEW	See below	To be determined	To be determined	To be determined

The Commission was established as a one-window regulator of oil and gas activities for British Columbia. The performance measures and targets under Goal 4 were established to measure Commission regulatory improvements.

All strategies under this goal were achieved, primarily through activities related to the development of new legislation (OGAA). In addition, a number of MOUs were established, with agencies including the National Energy Board, the Agricultural Land Commission, and the Mediation and Arbitration Board.

In an effort to continually improve the regulatory environment, the Commission maintains a number of working agreements and MOU that support and define the relationships and delegated authorities with partner agencies.

There is an MOU pending with the BC Safety Authority regarding inspection of Unfired Pressure Vessels that will be signed in June. The Commission will continue to work with its partner agencies and ministries to evaluate and renew existing MOUs as well as negotiate new MOUs to assist in efficiently applying new regulations arising from OGAA. The agreements support Commission authority with respect to upholding the values associated with the partner agencies' mandates. They also ensure a continued dialogue with partner agencies as agreements require updates or enhancements.

Client satisfaction provides a measure of the quality of interaction perceived by partner agencies through the implementing of the oil and gas legislative framework. Due to fiscal constraints and overall consistent trends on Client Satisfaction surveys from prior years, the Commission did not conduct a survey for MOUs in 2008/09. In 2009/10 the Commission plans to include MOU clients as part of the overall survey.

The Commission is a great place to work

Objectives

- Support a healthy and safe work environment
- Ensure appropriate infrastructure and support services are in place to allow for development and growth of Commission employees

Strategies

Achieved:

- Utilize employee survey results to foster a climate where employees are engaged in their work

Ongoing:

- Improve training, knowledge and education organization wide
- Maintain the Commission's health and wellness program in support of ActNow BC

Performance Measures	Results		Targets		
	2007/08	2008/09	2008/09	2009/10	2010/11
Percentage of employees with a development plan in place Baseline: 13% (2004/05)	17%	98% Target met	100%	100%	100%
Voluntary turnover rate of regular staff Baseline: 11.3% (2000/01) Benchmarks: 2.6% (BC Government, 2005/06) 5.4% (AEUB 2004/05)	17%	9.1% Target exceeded	10%	10%	10%
Percentage of employees that respond to an employee engagement survey Baseline: 94% (2007/08) Benchmark: 70% (Public Service Agency 2007/08)	94%	92% Target exceeded	90%	90%	90%

The Commission has continued to focus on developing supervisor skills, health and wellness programs and employee engagement. This focus is reflected in our results, meeting two of the three performance targets.

Although we did not reach the 100% performance target for development plans, we achieved significant improvement over the previous year's result and consider 98% to be the highest percentage possible with any amount of staff turnover. A new Behavioral Competency Model was introduced and further definition of the technical skill requirements for each position was completed. The results of these efforts will be reflected in the performance review and development process launched in June 2009.

The Commission completed its second Work Environment Survey (WES) this year. Not only did the Commission exceed its performance target for participation but accomplished incredible improvements in the survey results. The year was focused on initiatives launched from previous survey feedback. The success of this was demonstrated in improved engagement scores and reduced voluntary turnover. A number of human resource initiatives support the organization in retaining employees; this includes implementing an effective performance appraisal system through the recognition and connection of competencies, technical skills and attendance with results. The Commission continues to provide access to wellness planning, enhanced health services and physical fitness programs. These changes have contributed to positive WES results. There continue to be programs in place supporting the leadership development of high potential staff within the organization, and the Commission continues to provide supervisors with the training and tools required to manage operational issues.

Financial Report

For fiscal 2008/09, the Commission's Consolidated Net Loss was $3.7 million compared to a budgeted Net Loss of $2.9 million and Net Income of $0.7 million the prior year.

Consolidated Financial Results $000s	2004/05 Actual	2005/06 Actual	2006/07 Actual	2007/08 Actual	2008/09 Budget	2008/09 Actual
Revenues						
Fees	16,243	16,605	14,364	11,588	13,900	13,278
Levies	10,283	11,415	14,323	13,727	14,167	14,050
Misc & Recoveries	402	1,709	1,039	1,057	780	510
Total Revenues	26,928	29,729	29,726	26,352	28,847	27,838
Expenses						
First Nations	9,819	11,108	9,065	7,103	7,830	8,797
Salaries and Benefits	9,198	10,078	11,370	13,165	14,496	15,592
Operating Expenses	4,588	6,776	6,579	6,329	9,584	7,950
Total Expenses	23,605	27,962	27,014	26,597	31,910	32,339
Operating Income (Loss)	3,323	1,767	2,712	(245)	(3,063)	(4,501)
Amortization of Contributed Assets	95	95	105	105	48	58
Net Income (Loss)	3,418	1,862	2,817	(140)	(3,015)	(4,443)
Orphan Site Reclamation Fund - Surplus	-	-	911	841	104	709
Consolidated Net Income (Loss)	3,416	1,862	3,728	701	(2,911)	(3,734)

Fee revenues are mainly derived from well-drilling permit applications, in addition to pipeline and geotechnical permit applications and assessments on operating pipelines. Because drilling activity levels can be volatile year to year, fee revenue is difficult to forecast accurately - it is impacted by the price of natural gas and crude oil, industry outlook, regulatory regimes (in BC and externally) and even weather and technological advances. For 2008/09 activity was also impacted later in the year by deterioration of credit markets. Fee revenue of $13.3 million was up $1.7 million over the prior year but 4.5% under budget. There were 1,397 well applications in the year compared 1,106 in 2007/08 and a forecast figure of 1,400.

Levy revenue is earned on production of natural gas and oil from the subsurface. The volumes are more predictable, and although they do fluctuate somewhat with commodity prices, the revenue derived is also more easily predictable. Levy revenue increased by 2.4% to just over $14 million and was 0.8% or $117,000 under forecast.

Payments to First Nations increased 23.8% to $8.8 million. Relations with First Nations are managed through CPAs which base payments to First Nations on well application fees, but also may have some fixed component. The number of applications increased by 26.3%.

The Commission employs people of varied expertise with a wide range of technical and professional backgrounds in different geographic areas. The most significant expense of the Commission, in magnitude and importance, is salaries and benefits. Salaries and benefits increased year over year from $13.2 million to $15.6 million, or 18.4%. This corresponds to planned increases in full-time employees to better manage increases in industry activity and also reflects various efforts to manage turnover.

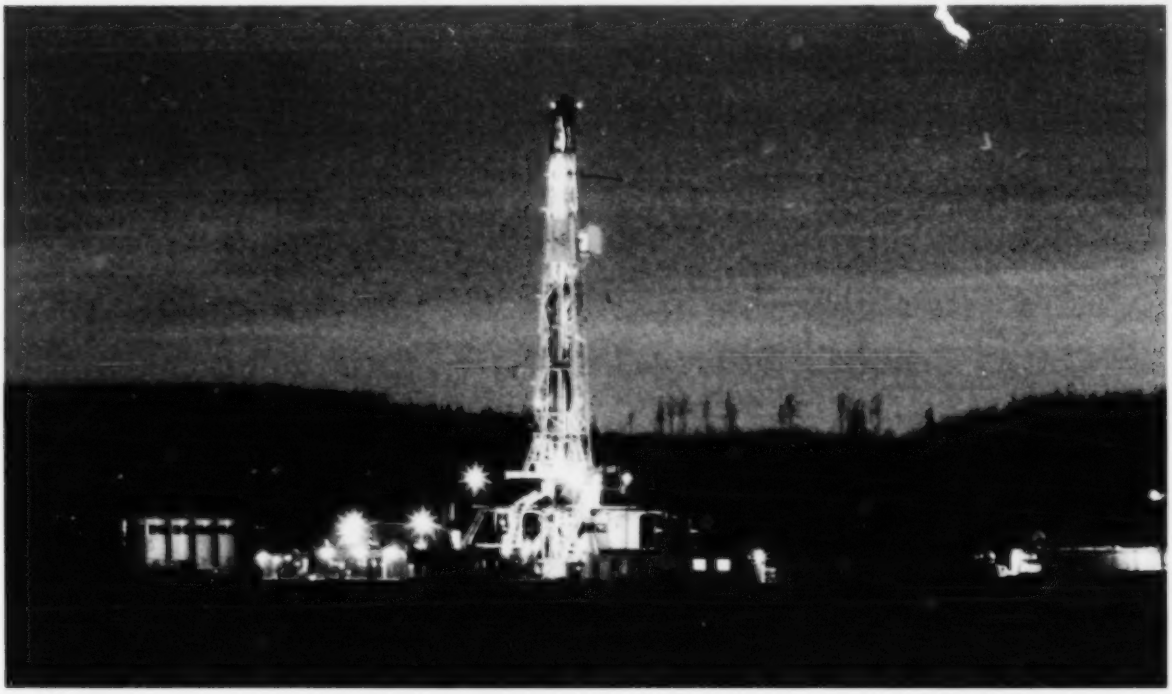
General operating expenses increased by $1.6 million to just under $8 million with significant increases occuring in professional services and training, building occupancy, and amortization. Much of this is a reflection of staffing levels and resources needed to effectively support these levels.

The Orphan Site Reclamation Fund (Orphan Fund) is administered and managed by the Oil and Gas Commission. Therefore the financial results of the Orphan Fund are consolidated with the Commission's financial position and results in the audited Financial Statements. On a non-consolidated basis, the Orphan Fund had a net income of $709,000, and the Commission a net loss of $4.4 million. When consolidated, this reduced Net Assets to $11.7 million.

Financial Position

In 2008/09 the Commission intentionally drew on prior years' surpluses to fund improvements in premises and capacity/technology improvement. Cash balances were reduced from $6.9 million at fiscal 2008 year-end to $4.1 million at March 31, 2009. Cash held by the Orphan Fund, which is restricted in its use to Orphan activities, increased from $1.6 million to $2.2 million. Cash administered by the Commission on behalf of the Science and Community Environmental Knowledge (SCEK) Fund increased from $1.6 million to $2 million, however this is mirrored by an identical obligation payable to SCEK.

The Commission invested over $1.1 million into property, plant and equipment during the year; however amortization of this asset group exceeded $1.2 million. Therefore the balance in the financial statements actually decreased 3.4%. Net assets of the Commision started the year at $15.4 million and ended the year at March 31, 2009 at $11.7 million.



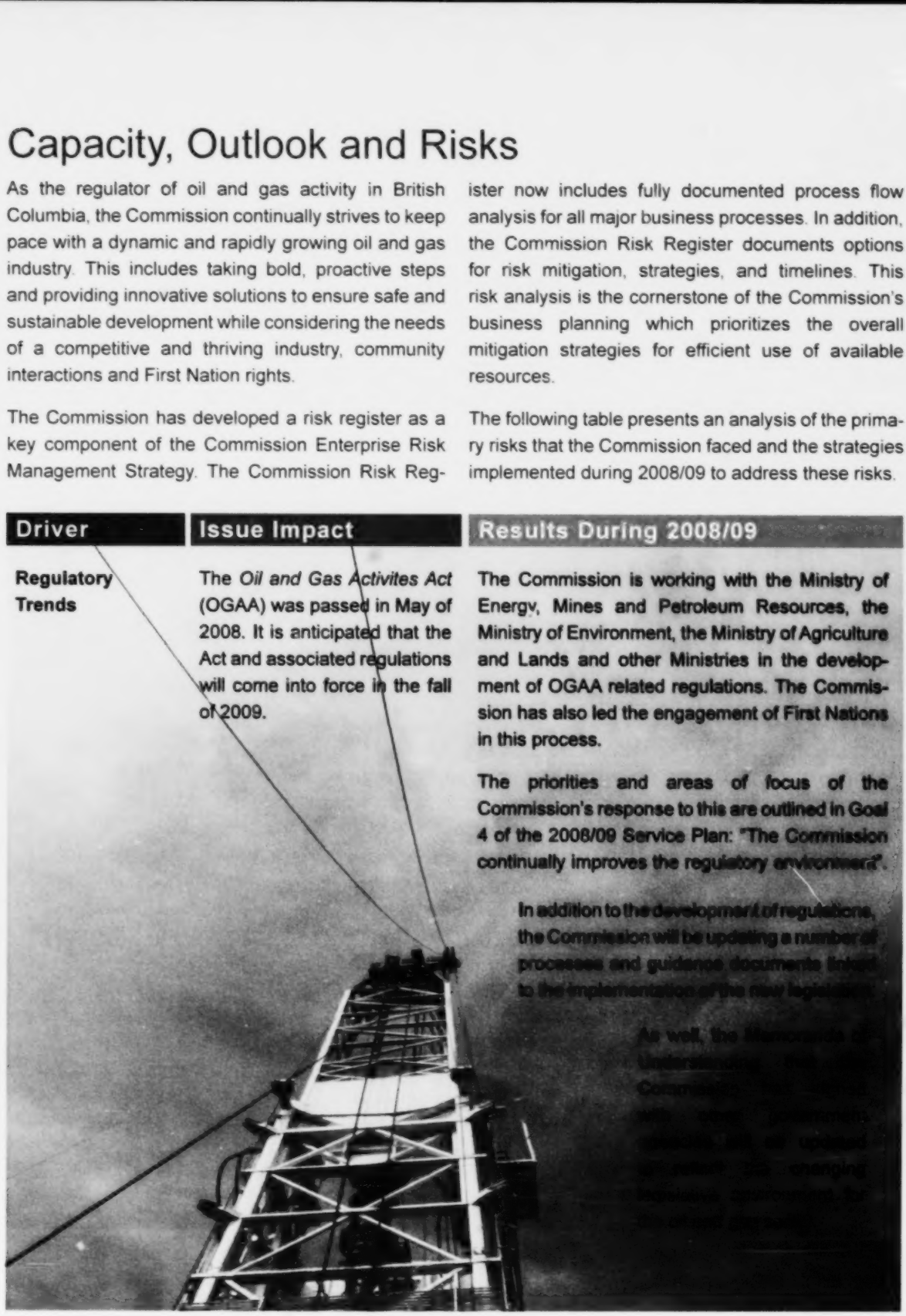
Capacity, Outlook and Risks

As the regulator of oil and gas activity in British Columbia, the Commission continually strives to keep pace with a dynamic and rapidly growing oil and gas industry. This includes taking bold, proactive steps and providing innovative solutions to ensure safe and sustainable development while considering the needs of a competitive and thriving industry, community interactions and First Nation rights.

The Commission has developed a risk register as a key component of the Commission Enterprise Risk Management Strategy. The Commission Risk Register now includes fully documented process flow analysis for all major business processes. In addition, the Commission Risk Register documents options for risk mitigation, strategies, and timelines. This risk analysis is the cornerstone of the Commission's business planning which prioritizes the overall mitigation strategies for efficient use of available resources.

The following table presents an analysis of the primary risks that the Commission faced and the strategies implemented during 2008/09 to address these risks.

Driver	Issue Impact	Results During 2008/09
Regulatory Trends	The *Oil and Gas Activites Act* (OGAA) was passed in May of 2008. It is anticipated that the Act and associated regulations will come into force in the fall of 2009.	**The Commission is working with the Ministry of Energy, Mines and Petroleum Resources, the Ministry of Environment, the Ministry of Agriculture and Lands and other Ministries in the development of OGAA related regulations. The Commission has also led the engagement of First Nations in this process.** **The priorities and areas of focus of the Commission's response to this are outlined in Goal 4 of the 2008/09 Service Plan: "The Commission continually improves the regulatory environment".** **In addition to the development of regulations, the Commission will be updating a number of processes and guidance documents linked to the implementation of the new legislation.**



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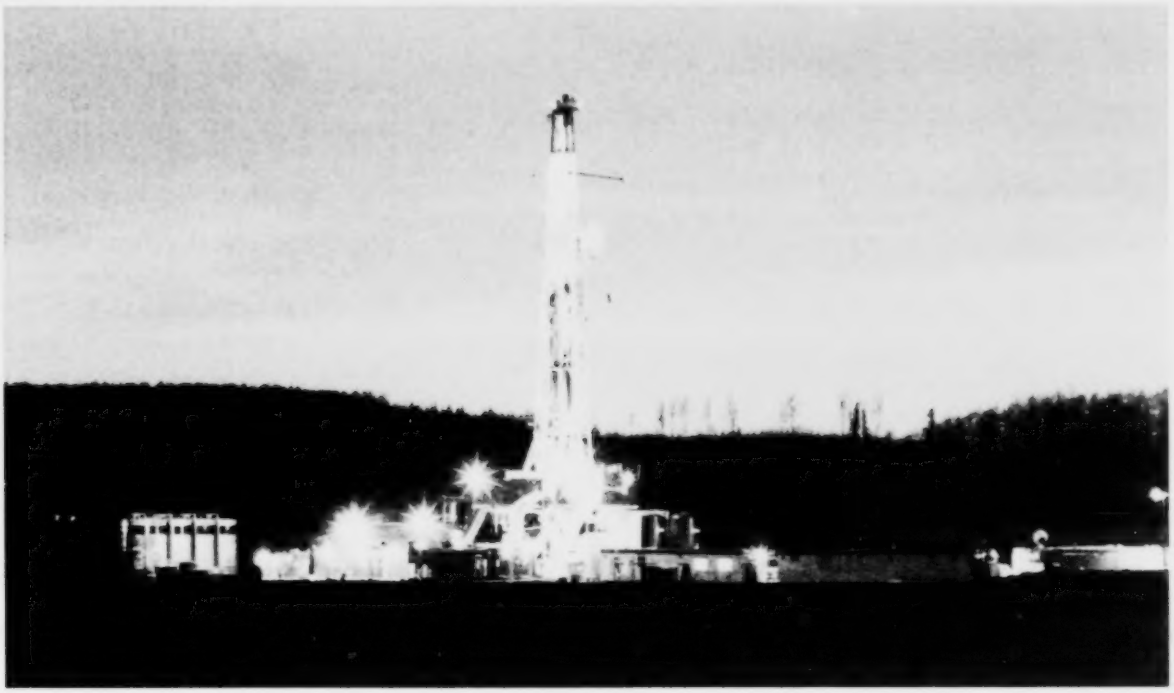

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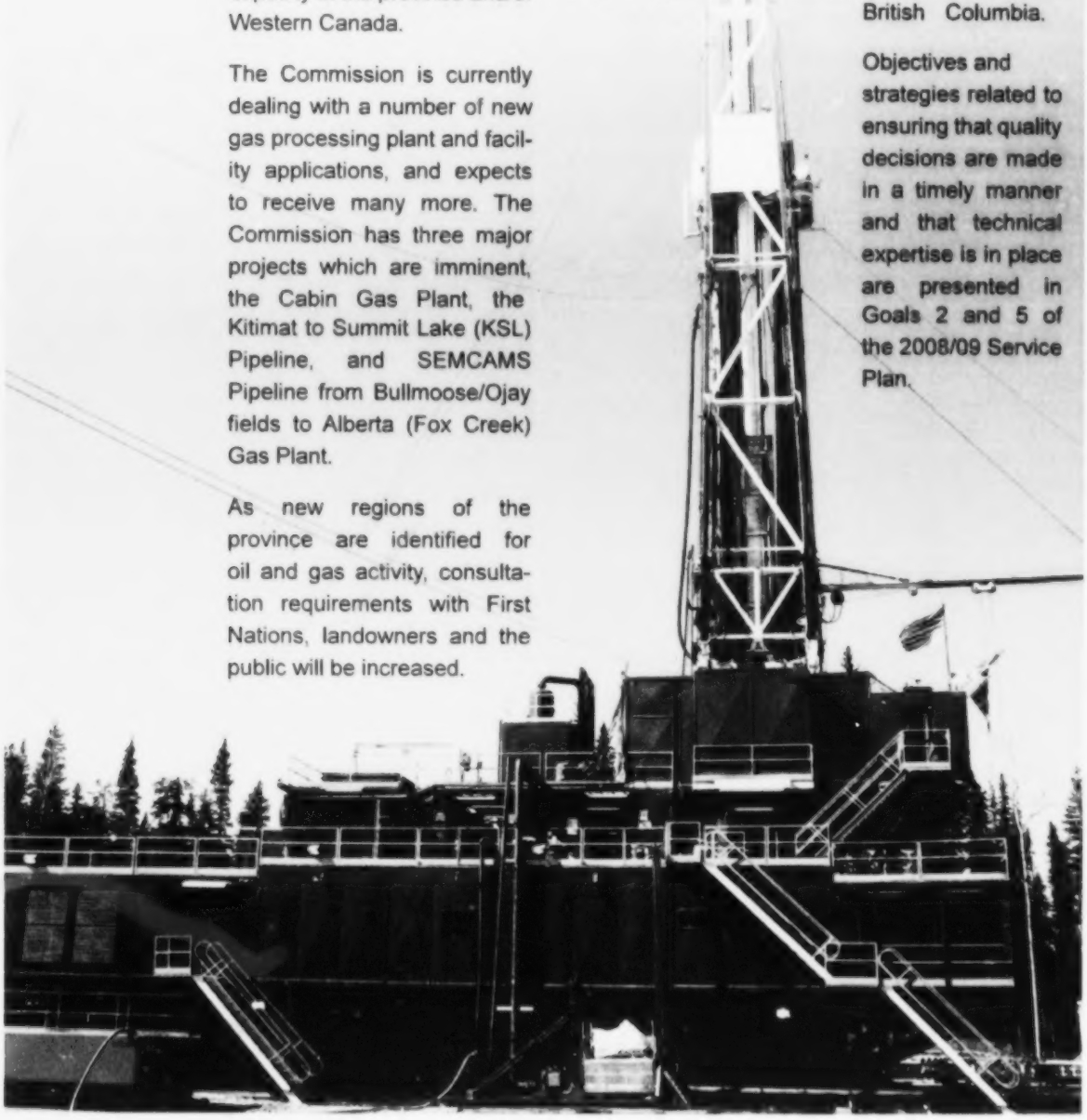
Driver	Issue Impact	Results During 2008/09
First Nations	The Provincial government has been negotiating economic benefit agreements and associated resource management agreements with the Treaty 8 First Nations. Each of these will have an effect on the operating environment for the oil and gas sector. The Consultation Process Agreement Implementation Committee and other Consultation Agreements continue to evolve the processes for oil and gas related consultations. The provincial government is implementing a new First Nations Consultation Coordination and Strategic Engagement Model at a sub-regional level throughout the province.	The Commission has been a key participant in the negotiation of the oil and gas related agreements. Goal 3 in this Service Plan 'The Commission is recognized as a service-oriented organization' outlines the Commission's commitment to maintain a strong service focus, which includes working with First Nations communities. The Commission continues to work through North East Managers Committee to coordinate First Nation initiatives with other government agencies. The Commission will continue to participate in and provide advice to the First Nations Business Coordination Team to identify First Nations' and agencies' collective priorities on consultation and strategic engagement including economic benefit and resource management agreement implementation.

Driver	Issue Impact	Results During 2008/09
Stewardship	Oil and gas rights land sales have increased in two large shale gas plays, the Horn River Basin (HRB) and the Montney Basin. The HRB has relatively small amounts of oil and gas activity currently underway. The opportunity exists to develop a more coordinated approach to development related to water, wildlife access and First Nation values.	The Commission has brought together our surface land specialists and analysts under our Stewardship Director. The Commission has assisted in bringing together the Horn River Producers Group, First Nations and government working groups to address stewardship of other priority values that could be affected by oil and gas development in the HRB. These groups are coordinating activity to contribute toward sustainable management. Components of the effort include targets and indicators for maintaining priority values, a coordinated operational oil and gas development plan, operating protocols and values mapping. The Commission has assisted in bringing together producers and stakeholders in the Montney Basin to identify and address priority stewardship and sustainability issues in the area. This supports Goal 1 of the 2008/09 Service Plan, which states that the Commission will continually improve protection of the environment.

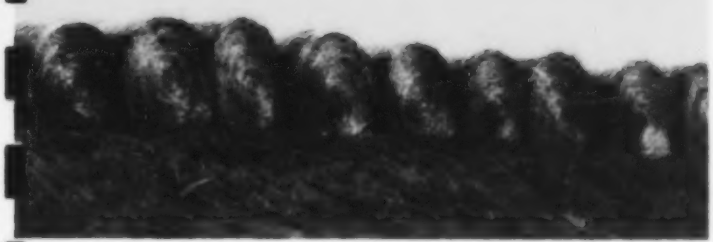
Driver	Issue Impact	Results During 2008/09
Major Projects	As a direct result of the recent drilling success and petroleum and natural gas rights sales in the province, most notably in the Montney and HRB gas plays, there is an emerging need for more gas processing capacity in the province and/or Western Canada. The Commission is currently dealing with a number of new gas processing plant and facility applications, and expects to receive many more. The Commission has three major projects which are imminent, the Cabin Gas Plant, the Kitimat to Summit Lake (KSL) Pipeline, and SEMCAMS Pipeline from Bullmoose/Ojay fields to Alberta (Fox Creek) Gas Plant. As new regions of the province are identified for oil and gas activity, consultation requirements with First Nations, landowners and the public will be increased.	Internally, the Commission was prepared to manage these shifts through the existing application procedures and increasing technical capacity to review and manage new and complex applications. The Commission has also worked with external agencies toward a provincial major oil and gas projects team for projects outside of Northeast British Columbia. Objectives and strategies related to ensuring that quality decisions are made in a timely manner and that technical expertise is in place are presented in Goals 2 and 5 of the 2008/09 Service Plan.



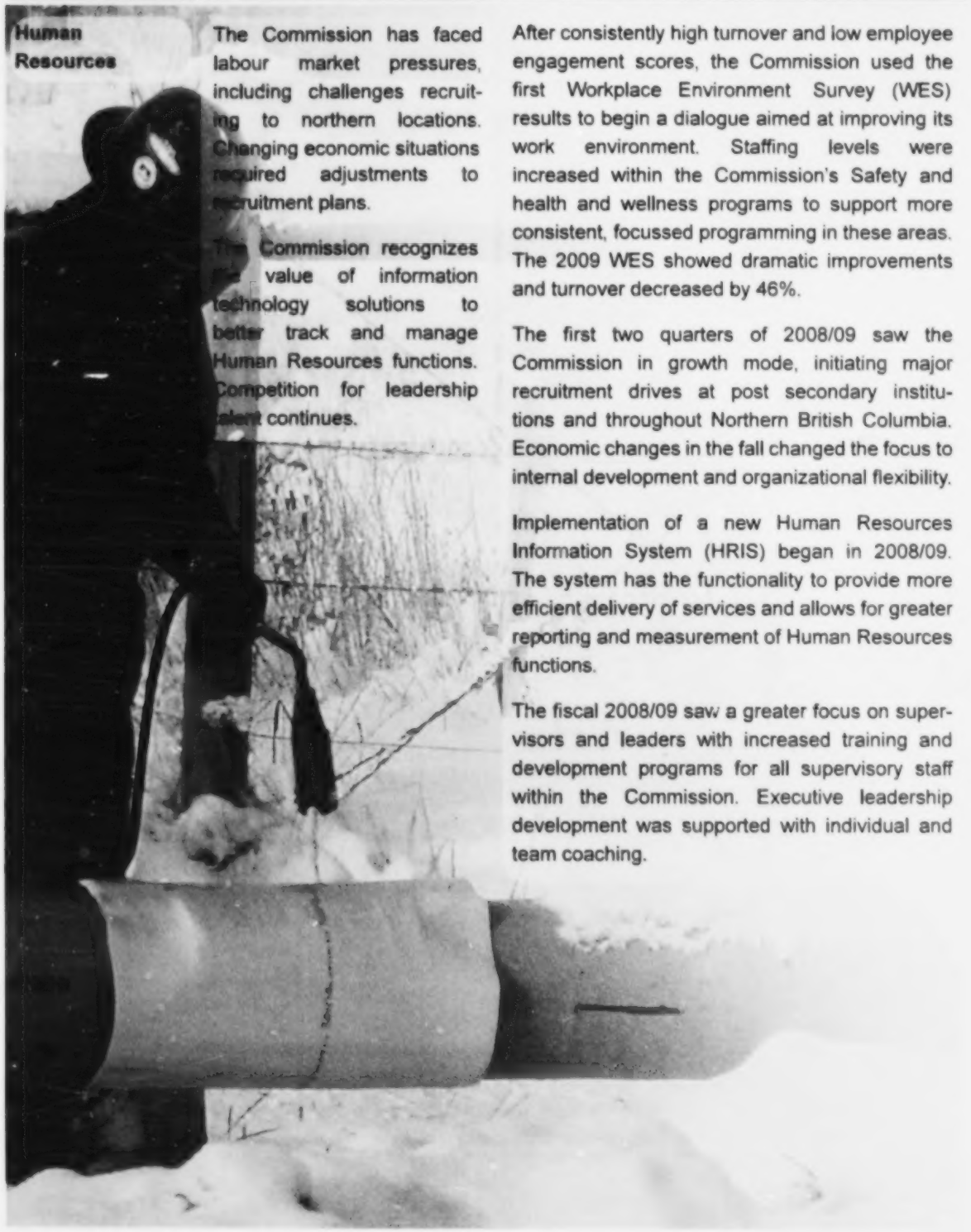
Driver	Issue Impact	Results During 2008/09
Industry Activity Trends / Funding	The global financial crisis had a negative effect on natural resource prices. Oil prices fell from a record high of over $147/US a barrel during the summer of 2008, to less than $50/US 12 weeks later. Production of conventional oil and gas (and related activity) in British Columbia is reaching maturity, however an increase in unconventional oil and gas plays will likely offset this depletion. British Columbia natural gas reserves continue to increase in size. With conventional Western Canadian gas production in decline, the emergence of unconventional gas sources could be vital in maintaining Canada's position as a major producer of natural gas.	Prior to the global economic decline, British Columbia saw record spending on oil and gas land right sales. Although BC gas production increased during the year, low oil and natural gas prices have impacted industry exploration and development. During the Commission's ten years of existence, approximately $9 million of retained earnings has been accumulated through conservative budgeting. With the approval of Treasury Board, the Commission had an operating deficit in 2008/09. The 2008/09 deficit allowed the Commission to defer fee and levy rate increases and facilitated an increase in regulatory capacity through increased Full Time Equivalents (FTEs) as well as ensured BC maintained a competitive business climate for this sector. This active fiscal management was welcomed by industry clients - those who pay Commission fees and levies. Conscious of investment sensitivity, the Commission's medium to long term goal is to protect the established staff resources and capacity in order to respond quickly when the global investment climate rebounds. **The Commission has implemented a fiscal conservation approach to minimize the risk of losing critical competitive capacity over the short term.**

Driver	Issue Impact	Results During 2008/09
Technology	New technologies are providing opportunities to increase linkages between working groups, reduce timelines for service delivery, increase data integrity and improve quality of decision making.	The ongoing development and enhancement of the Commission business systems continues to play a critical role as we continue to work towards the 2008/09 Service Plan Goal 1, to protect the public interest. Significant changes have been made to further streamline and improve the application process, consistency of data and accessibility of services. The Commission has also completed a review of our existing business system and processes as well as future needs. The results of this review will aid in the ongoing improvements of our service delivery.

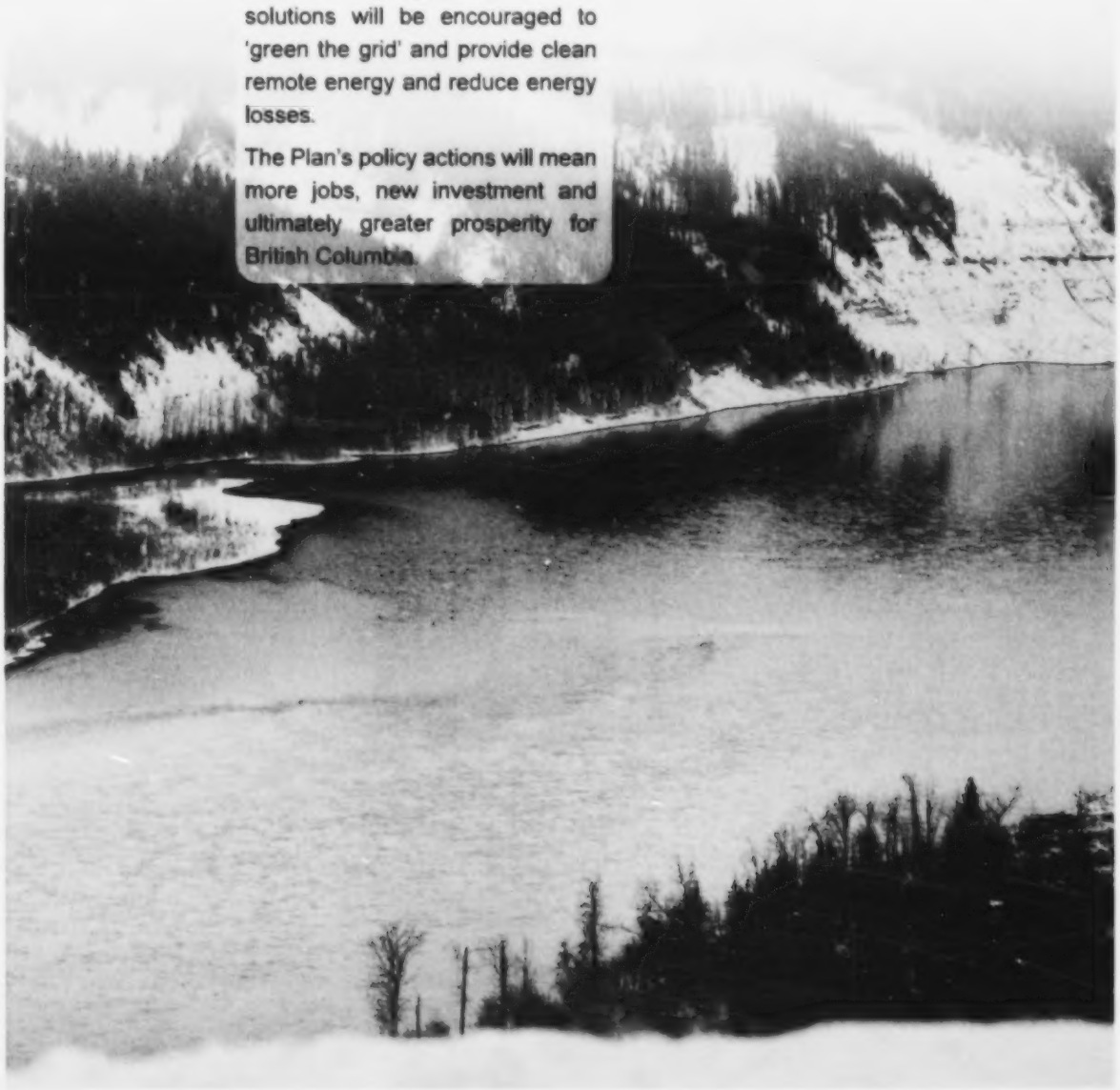
Driver	Issue Impact	Results During 2008/09
Organizational Capacity	As the oil and gas industry matures, the Commission is handling more complex development applications each year, resulting in more intricate consultation and compliance activities.	The Commission has been building capacity to meet regulatory demands by increasing staffing and providing facilities and services to attract, retain, and accommodate additional employees. This is particularly difficult, as similar positions working in industry are paid at significantly higher rates. Specifically, cost increases result from growth in FTE positions-filled which have increased from 145 to 180, incremental costs related to those positions (including leased space being readied in Fort Nelson, Fort St. John, Dawson Creek and Victoria), significant rate increases on existing facilities, and costs to implement and enforce regulations for OGAA, as yet unfunded. In order to keep pace with changing needs, the Commission sought to streamline regulatory processes, and prior to the economic downturn was aggressively pursuing skilled workers. Additionally, during 2008/09, the Commission conducted skills training and development for Commission staff.



Driver	Issue Impact	Results During 2008/09
Human Resources	The Commission has faced labour market pressures, including challenges recruiting to northern locations. Changing economic situations required adjustments to recruitment plans. The Commission recognizes the value of information technology solutions to better track and manage Human Resources functions. Competition for leadership talent continues.	After consistently high turnover and low employee engagement scores, the Commission used the first Workplace Environment Survey (WES) results to begin a dialogue aimed at improving its work environment. Staffing levels were increased within the Commission's Safety and health and wellness programs to support more consistent, focussed programming in these areas. The 2009 WES showed dramatic improvements and turnover decreased by 46%. The first two quarters of 2008/09 saw the Commission in growth mode, initiating major recruitment drives at post secondary institutions and throughout Northern British Columbia. Economic changes in the fall changed the focus to internal development and organizational flexibility. Implementation of a new Human Resources Information System (HRIS) began in 2008/09. The system has the functionality to provide more efficient delivery of services and allows for greater reporting and measurement of Human Resources functions. The fiscal 2008/09 saw a greater focus on supervisors and leaders with increased training and development programs for all supervisory staff within the Commission. Executive leadership development was supported with individual and team coaching.



Driver	Issue Impact	Results During 2008/09
BC Energy Plan	The 2007 BC Energy Plan (Plan) puts British Columbia at the forefront of environmental and economic leadership. This Plan looks to all forms of clean, alternative energy in meeting the needs of British Columbians and the provincial economy. New technologies and new solutions will be encouraged to 'green the grid' and provide clean remote energy and reduce energy losses. The Plan's policy actions will mean more jobs, new investment and ultimately greater prosperity for British Columbia.	The Commission continued to move forward with implementing priority aspects of the Plan, including flaring reduction, commingling policy, community level engagements and the process of carbon reporting.



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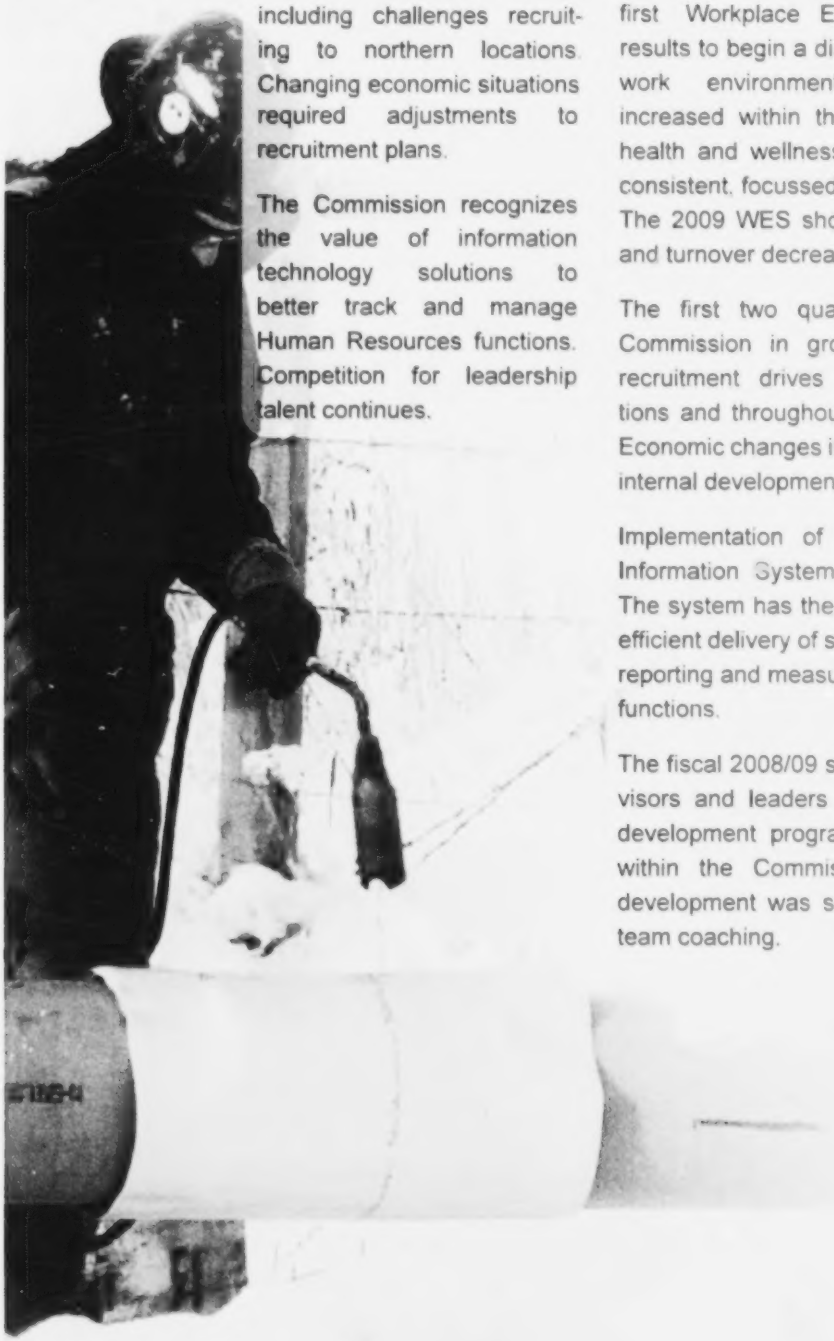

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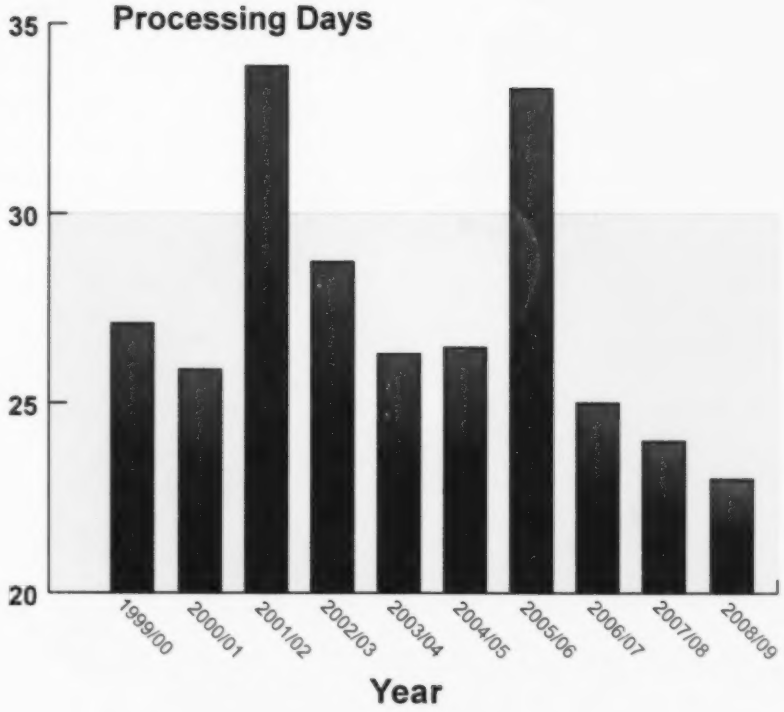
Processing Days
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30
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2003/04
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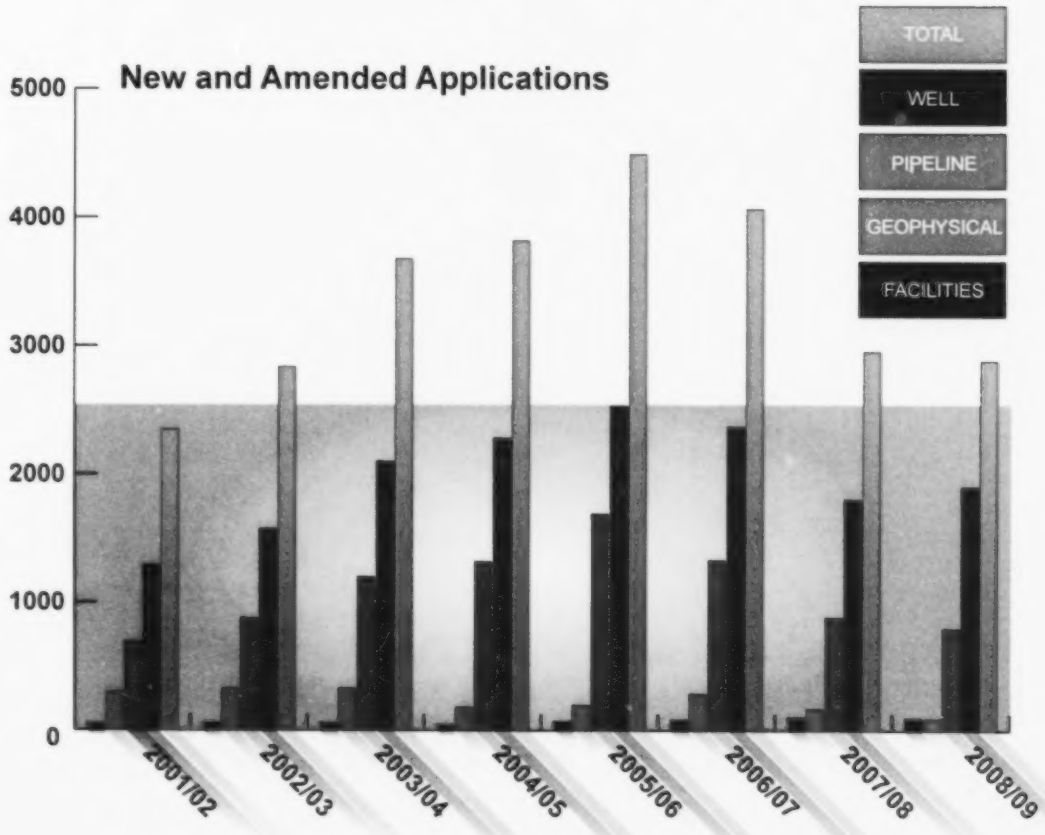
2006/07
2007/08
2008/09
Year


New and Amended Applications
TOTAL
WELL
PIPELINE
GEOPHYSICAL
FACILITIES
5000
4000
3000
2000
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2001/02
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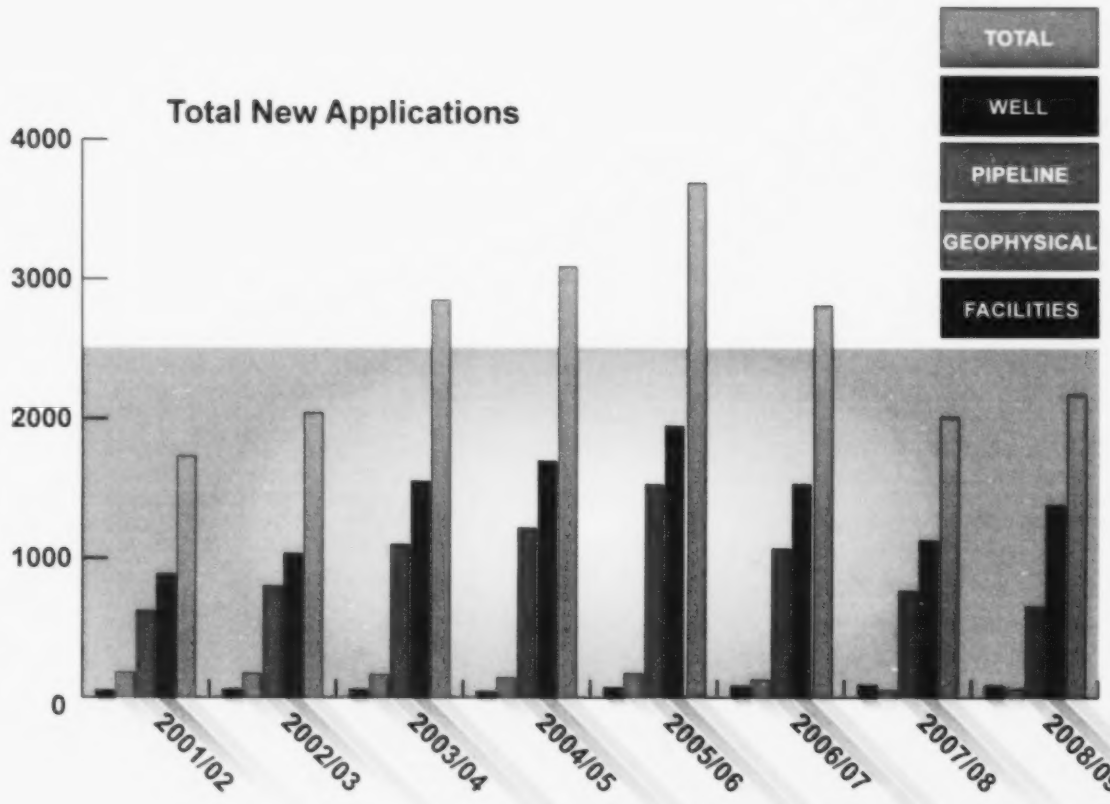
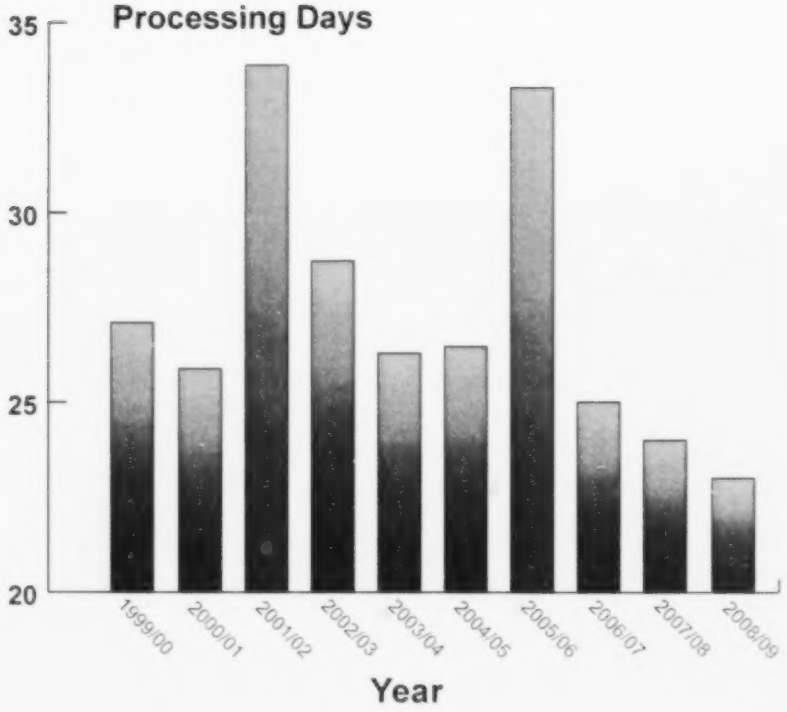
2003/04
2004/05
2005/06
2006/07
2007/08
2008/09

Independently Determined Historical Operating Data



Well applications, the most significant driver, increased by 27% over the previous fiscal year.


Processing Days
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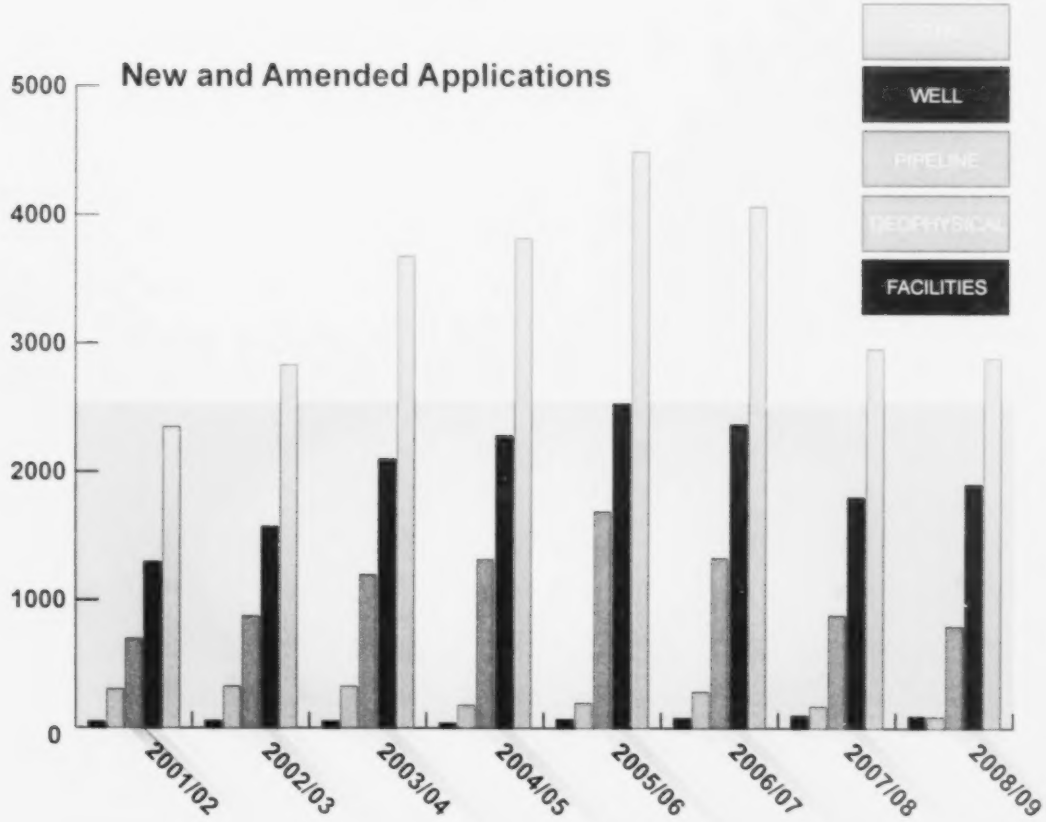
New and Amended Applications
5000
4000
3000
2000
1000
0
WELL
FACILITIES
2001/02
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2005/06
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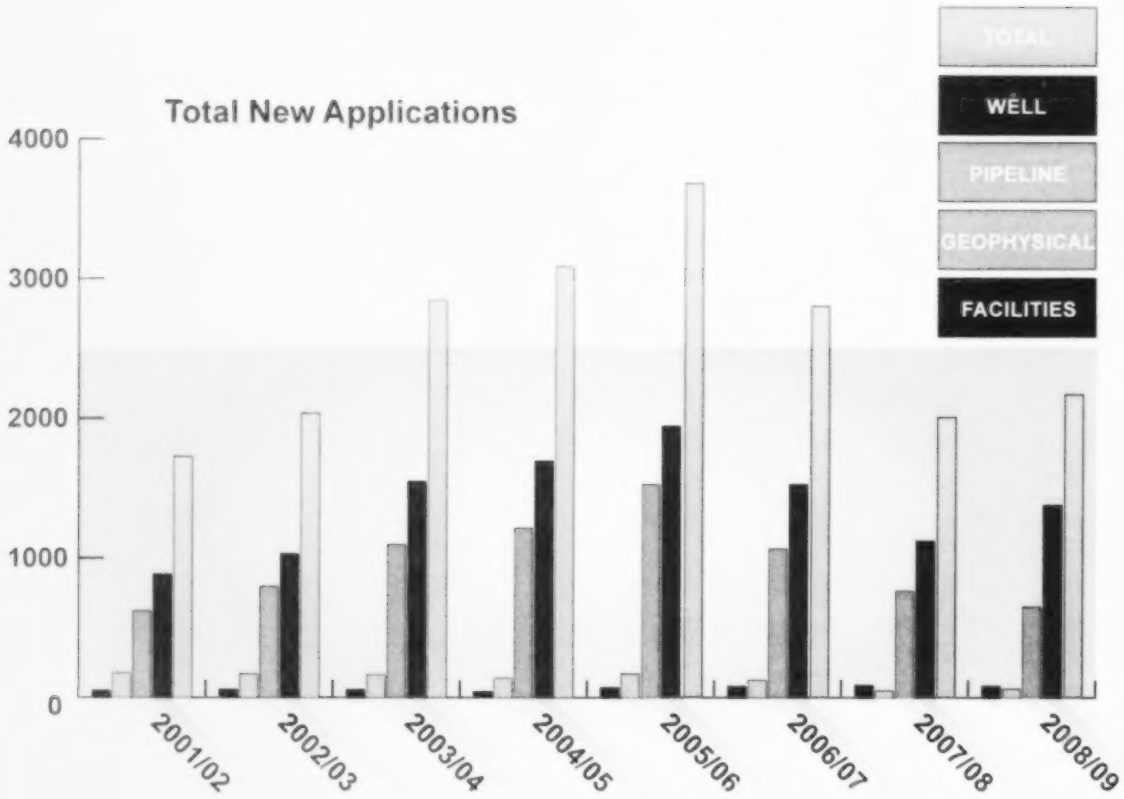
2007/08
2008/09

Independently Determined Historical Operating Data



Well applications, the most significant driver, increased by 27% over the previous fiscal year.

Data Integrity

Management has high confidence in the integrity of most operating data. However, some errors and ommissions have been identified in pipeline data. A project to correct the errors has been in place for three years and shows marked success in improving data quality. Work on this project continues.

In response to access and physical storage requirements for Commission paper files, a file digitization project will be assessed in 2008/09.

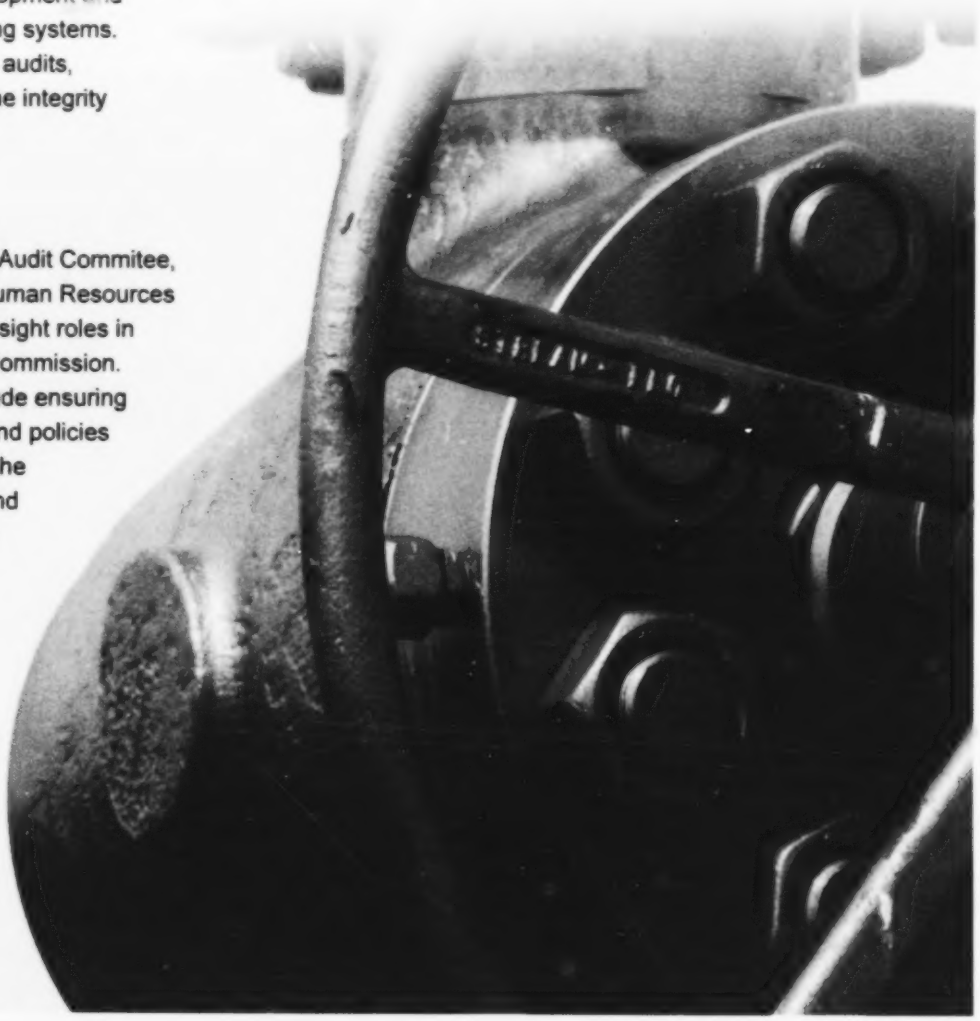
The Commission has an Information Systems Branch that manages the development and maintenance of operating systems. Controls, including data audits, are in place to ensure the integrity of operating data.

Oversight

The Board of Directors, Audit Commitee, and Governance and Human Resources Committee provide oversight roles in the governance of the Commission. Oversight activities include ensuring that appropriate plans and policies are in place, approving the Commission's budget and Service Plan, reviewing the Commission's performance to planned targets, and approving the organizational structure and level of staffing.

Financial statements of the Commission and the SCEK Fund are independently audited each year.

The Advisory Committee provides a level of oversight with respect to operating decisions. Any interested party may initiate a request for reconsideration by Alternative Dispute Resolution (ADR) to the Advisory Committee if they feel that a better original decision could have been made through ADR. The Advisory Committee is operationally independent of the Commission.



Management Perspective of the Future

The Commission has developed a four year financial plan. The details of the Summary Financial Outlook and assumptions are on the following two pages. Please refer to the Service Plan for strategies and measures which indicate the Commission's objectives for the future, as well as the means to achieve performance targets.

Confidentiality

This report is complete and contains no confidential information.

Capital Planning

The Commission has no major capital plans as defined by the *Budget Transparency and Accountability Act* (plans in excess of of $50M). Capital spending on information technology upgrades, tenant improvements and equipment are forecast to be $3.2 million over four years.

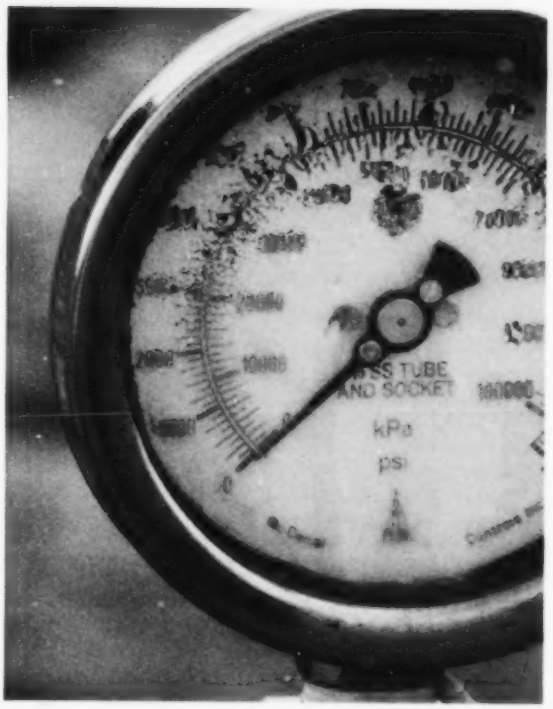
Summary Financial Outlook (Consolidated 2008/09) $000s	2007/08 Actual	2008/09 Budget	2008/09 Actual	2009/10 Forecast	2010/11 Forecast	2011/12 Forecast
Revenue						
Fees	11,568	13,900	13,278	24,035	24,998	26,004
Levies	13,727	14,167	14,050	8,866	9,222	9,593
Misc	1,057	780	510	650	700	750
Total Revenues	26,352	28,847	27,838	33,551	34,920	36,347
Expenses						
First Nations	7,103	7,830	8,797	8,720	9,000	9,280
Salaries and Benefits	13,165	14,496	15,592	16,348	17,182	18,068
Operating Expenses (incl amort)	6,329	9,584	7,950	8,483	8,738	8,999
Total Expenses	26,597	31,910	32,339	33,551	34,920	36,347
Operating Income (Loss)	(245)	(3,063)	(4,501)	-	-	-
Orphan Sites Reclamation Fund	841	104	709	-	-	-
Amortization of Contributed Assets	105	48	58	-	-	-
Net Income (Loss)	701	(2,911)	(3,734)	-	-	-
Deficit/Surplus Management Allowance		2911		-	-	-
Adjusted Net Income	701	-	(3,734)	-	-	-
Full Time Equivalents	154	162	180	182	187	190
Capital Expenditures	1,074	1,990	1,135	3,297	2,619	2,674

Key Assumptions

- New well applications are 1400, 1450, 1500 annually starting in 2009/10.
- Gas volumes are 27.2 x 10^9m^3, 27.3 x 10^9m^3 and 27.3 x 10^9m^3 starting in 2009/10.
- Oil volumes are 1.278 x 10^6m^3, 1.118 x 10^6m^3 and 1.097 x 10^6m^3 starting in 2009/10.
- Gas prices remain in excess of $5/MCF.
- Workforce FTEs per table previous reflect cost containment measures; wage and benefit increases are based on the current collective agreements and are subject to future labour negotiations however are otherwise calculated at 2.5% per annum.
- Inflation estimated at 3% per annum.
- Reclamation activities projected at five, four and four well sites per annum @ $200K each starting in 2009/10 for the Orphan Sites Fund.
- Premises costs do not reflect future possible consolidation of Fort St. John facilities.
- Funding for the new *Oil and Gas Activities Act* is limited to internal regulatory development - costs of training, implementation, and external stakeholder processes have not been addressed.
- Information Technology Migration Project capital spending is subject to an external review of Commission systems requirements.

Forecast Risks and Sensitivities

- Commercial price and production fluctuations.
- Exploration activity levels and well applications are affected by adverse weather conditions, commodity price fluctuations, and economic conditions.
- A revised fee/levy structure is to be implemented to offset variances from forecasted revenues and expenditures.
- The Commission has access to a three million dollar line of credit, however it is not anticipated that it will be used.



Oil and Gas Commission

Consolidated Financial Statements

March 31, 2009

BC Oil & Gas COMMISSION

Statement of Management Responsibility

The consolidated financial statements of the Oil and Gas Commission (Commission) for the year ended March 31, 2009 have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles. These consolidated financial statements present fairly the financial position of the Commission as at March 31, 2009, and the results of its operations and changes in its financial position for the year then ended.

Management is responsible for the preparation of the consolidated financial statements and have established systems of internal control to provide reasonable assurance that assets are safeguarded, that transactions are properly authorized, and that financial records provide reliable information for the preparation of financial statements.

The Auditor General of British Columbia has performed an independent audit of the consolidated financial statements of the Commission. The Auditor's report outlines the scope of his examination and expresses an opinion on the statements of the Commission.

Alex Ferguson
Commissioner

Randall Smith
Executive Financial Officer

Report of the Auditor General of British Columbia

To the Board of Directors of
the Oil and Gas Commission, and

To the Minister of Energy Mines and Petroleum Resources
Province of British Columbia:

I have audited the consolidated statement of financial position of the *Oil and Gas Commission* as at March 31, 2009, and the consolidated statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the *Oil and Gas Commission* as at March 31, 2009, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia
May 22, 2009

John Doyle, MBA, CA
Auditor General

Oil and Gas Commission
Consolidated Statement of Financial Position
(in $000s)

March 31	2009	2008
Assets		
Current assets		
Cash	**4,109**	6,909
Accounts receivable	**1,041**	875
Due from Province of British Columbia (Note 5)	**5,945**	6,272
Prepaid expenses and other assets	**249**	216
	11,344	14,272
Orphan Site Reclamation Fund (Note 6)	**2,242**	1,556
Science and Community Environmental Knowledge Fund (Note 7)	**2,174**	1,832
Property, plant and equipment (Note 8)	**3,457**	3,249
	19,217	20,909
Liabilities and net assets		
Current liabilities		
Accounts payable	**1,533**	1,161
Wages payable	**1,447**	1,315
Due to First Nations	**844**	542
Due to the Province of British Columbia (Note 5)	**910**	359
	4,734	3,377
Future retirement allowance	**533**	132
Obligations as SCEK fund administrator (Note 7)	**2,174**	1,832
	7,441	5,341
Net assets		
Net assets	**11,706**	15,440
Contributed assets (Note 9)	**70**	128
	11,776	15,568
	19,217	20,909

Contingent Liability (Note 12)
The accompanying notes are an integral part of these statements

Approved on behalf of the Board

Greg Reimer, Board Chair

Alex Ferguson, Commissioner

Oil and Gas Commission
Consolidated Statement of Operations and Net Assets
(in $000s)

March 31	2009	2008
Revenues		
Fees	13,278	11,568
Levies	14,050	13,727
Recoveries from Province	185	505
Miscellaneous	325	552
	27,838	26,352
Expenses		
Salaries and benefits	15,592	13,165
First Nations (Note 14)	8,797	7,103
Professional services and training	1,909	1,178
Travel and vehicle costs	1,295	1,495
Building occupancy	1,847	1,253
Telecommunications and information systems	941	707
Amortization	1,243	922
Miscellaneous and reserve for doubtful accounts	212	121
Office supplies and equipment	493	585
Grants	10	68
	32,339	26,597
Income (loss) from operations	(4,501)	(245)
Orphan Site Reclamation Fund (Note 6)	709	841
Amortization of contributed assets (Note 9)	58	105
Net income (loss)	(3,734)	701
Net assets beginning of year	15,440	14,739
Net assets end of year	11,706	15,440

The accompanying notes are an integral part of these statements.

Oil and Gas Commission
Consolidated Statement of Cash Flows
(in $000s)

March 31	2009	2008
Operating activities		
Cash generated from:		
Fees	13,072	11,751
Levies	14,874	14,657
Miscellaneous and recoveries	1,739	961
	29,685	27,369
Cash used for:		
Payments to First Nations	8,600	7,057
Salaries and benefits	15,058	12,485
Operating expenses	6,690	5,988
	30,348	25,530
Cash from (used in) operating activities	(663)	1,839
Investing activities		
Purchase of plant and equipment	1,451	1,435
Cash used in investing activities	(1,451)	(1,435)
Financing activities		
Cash restricted for Orphan Site Reclamation Fund	686	819
Cash used in financing activities	(686)	(819)
Decrease in cash	(2,800)	415
Cash beginning of year	6,909	7,324
Cash end of year	4,109	6,909

The accompanying notes are an integral part of these statements.

Oil and Gas Commission
Notes to the Consolidated Financial Statements March 31, 2009
(tabular in $000s)

---

1. The Oil and Gas Commission

The Oil and Gas Commission (Commission) was established under the *Oil and Gas Commission Act* on July 30, 1998 to regulate industry activity on oil and gas lands and to resolve industry land use and economic issues related to Aboriginal lands on behalf of the Province of British Columbia. The Commission is also accountable for delivering initiatives and programs that serve to minimize the environmental impact of oil and gas activities in British Columbia.

The Commission is funded through revenue from the consolidated revenue fund of the Province of British Columbia derived from:

- Levies from oil and gas production,
- Fees related to applications for licenses, permits and other authorizations reviewed by the Commission under the *Petroleum and Natural Gas Act*, and
- Annual fees prescribed under the *Petroleum and Natural Gas Act* and the *Pipeline Act*.

The Commission is exempt from federal and provincial income taxes.

2. Significant Accounting Policies

The consolidated financial statements of the Commission are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). Significant accounting policies are as follows:

New accounting pronouncements

Goodwill and Intangible Assets

In February 2008 the CICA issued section 3064 *Goodwill and Intangible Assets* which provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. The standard is effective for fiscal years beginning on or after October 1, 2008, and requires retroactive application to prior period financial statements. The Oil and Gas Commission has evaluated the impact of this new standard for adoption on April 1, 2009 and does not expect any significant impact on its financial statements.

Consolidation

The accounts of the Commission and the Orphan Site Reclamation Fund (OSRF) have been consolidated in these financial statements. The Commission administers and controls the OSRF and all intercompany balances and transactions have been eliminated.

Financial Instruments

The Commission has designated its Financial Instruments as follows: Cash is classified as held for trading and measured at fair value and all gains and losses are included in net income from operations in the period in which they occur. Accounts receivable are classified as loans and receivables and are measured at amortized cost. Accounts payables, wages payable and due to First Nations are classified as other financial liabilities and are also measured at amortized cost.

2. Significant Accounting Policies (continued)

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are amortized on a straight-line basis over the estimated useful life of the assets at the following annual rates:

• Furniture, equipment and tenant improvements	10 per cent
• Operating equipment	20 per cent
• Automotive equipment	25 per cent
• Computer hardware	33 per cent
• Computer software	33 per cent

An amount approximating amortization associated with capital assets originally paid for by the Province of British Columbia is transferred from contributed assets to revenue each year. See note 6.

Revenue Recognition

All fee and levy revenue authorized and collected under Section 23 of the *Oil and Gas Commission Act* is first paid to the Minister of Finance. The province is required to transfer this amount of revenue to the Commission in full. Revenue is recognized when it is earned. The Oil and Gas Levy is assessed in the third month following production; therefore, revenue for January, February and March is estimated based on an analysis that takes into account both historical and current year trends. Fees under the *Pipeline Act* for pipelines are recognized when earned, that is, when pipeline construction "leave to open" has been granted.

Use of Estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

3. Capital Management

The Oil and Gas Commission defines capital as net equity (assets minus liabilities). It manages its capital structure in accordance with its long-term view of investments in property, plant and equipment and the anticipated impacts to operations caused by changes in economic conditions necessary to meet its legislative mandate. There has been no change to the Commission's approach to capital management during the period. The Commission is currently meeting all of its financial commitments. The Commission has no externally imposed capital requirements.

4. Financial Instruments

The Commission's financial instruments include Cash, Accounts Receivable, Accounts Payable, and Due to First Nations. The carrying amounts of these instruments approximates fair value due to their short-term nature.

Risks

The activities of the Commission could expose it to a variety of financial risks including credit risk, interest rate risk, and liquidity risk.

4. Financial Instruments (continued)

Credit Risk

Credit risk is the risk associated with the inability of a third party to fulfill payment obligations. The Commission is exposed to credit risk in the event of non-payment of Accounts Receivable levies on production of oil and gas. This risk is negligible, as the third parties cannot access their oil and gas assets without the concurrence of the Commission.

The Commission is exposed to credit risk associated with its cash deposits. This risk is mitigated by placing Cash deposits in recognized British Columbia and Canadian deposit-taking financial institutions, with coverage of the Credit Union Deposit Insurance Corporation or the Canadian Deposit Insurance Corporation. Credit risk arising from Cash deposits is considered negligible.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in market interest rates will affect future cash flows or fair values of financial instruments. The Commission is exposed to interest rate risk on Cash deposits, however the risk is not considered significant as interest revenues are not significant.

Liquidity Risk

Liquidity risk is the risk that the Commission will encounter difficulty in meeting obligations associated with its financial liabilities. The Commission manages its liquidity risk by placing deposits in cash and closely monitoring revenue-generating activities, as well as controlling expenditures to result in suitable cash flows.

It is management's assessment that the Commission is not exposed to significant credit, interest, or liquidity risk arising from these instruments.

5. Due from / to the Province of British Columbia

	2009	2008
Due from:		
Fees and levies	5,702	5,575
Contract reimbursement	76	374
Orphan site reimbursement	167	323
	5,945	6,272
Due to:		
Operating expenses	910	359
	910	359

6. Orphan Site Reclamation Fund

The Oil and Gas Commission administers the Orphan Site Reclamation Fund (OSRF). The OSRF was created on April 1, 2006 as a means for industry to pay for reclamation of orphaned oil and gas sites and for related costs. Funding was established by the Ministry of Energy, Mines and Petroleum Resources to reclaim and remediate orphan sites specifically identified at that time. There are currently 14 identified orphan sites in BC; these are in various states of reclamation. It is anticipated that there will be no residual liability from the identified sites beyond amounts funded by the Ministry of Energy, Mines and Petroleum Resources towards reclamation.

6. Orphan Site Reclamation Fund (continued)

In addition, there are 24 potential orphan sites in BC, the majority of which preceded regulation in the province. Liability for these sites has not been established at this time, however it is probable that the majority will become the responsibility of the OSRF if ownership cannot be determined. Reclamation of the sites would then be prioritized based on risk, and proximity to human habitation or sensitive environment. Because the majority of these sites were abandoned more than 50 years ago with minimal documentation, it is impractical to estimate costs of reclamation.

At March 31, 2009, the Commission held $2,242,000 in cash (2008: $1,556,000) which is restricted for use by the OSRF and was therefore not available for general use of the Commission. Net Assets accumulated by the OSRF at March 31, 2009 totalled $2,608,000 (2008: $1,899,000).

Operations of the OSRF are summarized as follows:

	2009	2008
Revenue		
Levies	**921**	893
Recoveries from province	**992**	248
Miscellaneous	**26**	48
Total Revenue	**1,939**	1,189
Expenses		
Reclamation expenses	**1,230**	348
Total Expenses	**1,230**	348
Net Income - Orphan Sites Reclamation Fund	**709**	841

7. Science and Community Environmental Knowledge (SCEK) Fund

The Commission administers the SCEK fund on behalf of the SCEK Steering Committee. Funding is generated and collected by the Commission through a portion of the levy on oil and gas production and a portion of the application fee for wells. The money is restricted for use as directed by the SCEK Steering Committee for projects and administration of the SCEK Fund. This funding was suspended April 1, 2009.

8. Property, Plant and Equipment

			2009	2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and tenant improvements	3,823	2,081	**1,742**	1,179
IT migration project	2,311	1,027	**1,284**	1,605
Computer hardware	1,085	922	**163**	182
Automotive equipment	368	326	**42**	127
Operating equipment	167	109	**58**	78
Computer software	706	595	**111**	21
Land	57	-	**57**	57
	8,517	5,060	**3,457**	3,249

9. Contributed Assets and Forgiveness of Start-up Costs

During its first year of operation (fiscal 1999) the Commission borrowed funds from the province to finance its purchase of capital assets and pay for professional contracts. The total of these amounts was $1.62 million.

During fiscal 2001 the province forgave this amount and the amount equal to the capital assets. They were recognized as a contributed asset.

Contributed assets are amortized each year in an amount approximating amortization of capital assets; this amount is transferred to revenue.

	2009	2008
Contributed assets beginning of year	128	233
Amortization of contributed assets	(58)	(105)
Contributed assets end of year	70	128

10. Employee Benefit Plans and Future Liability

Employees' Benefits Plan

The Commission and its employees contribute to the Public Service Pension Plan (the Plan). The Public Service Pension Board of Trustees, representing plan members and employers is responsible for overseeing the management of the Plan, including investment of the assets and administration of benefits. The Plan is a defined benefit multi-employer contributory pension plan.

Every three years, an actuarial valuation is performed to assess the financial position of the Plan and the adequacy of Plan funding. The latest valuation as at March 31, 2008 indicated a surplus of $487 million for basic pension benefits. The next valuation will be as at March 31, 2011 with results available in early 2012. The actuary does not attribute portions of the unfunded liability or surplus to individual employers. Contributions to the Plan by the Commission for 2009 were $1,017,905 (2008: $868,234).

Accrued Employee Leave Entitlements

As of March 31, 2009, the value of employee entitlements to vacation, other leave and compensatory time off, plus related benefits, in accordance with collective agreements and terms of employment was $446,387 (2008: $527,130).

Employee Future Retirement Allowance Liability

The Commission accrues for future retirement allowances as provided under the collective agreements and terms of employment. The discounted value, net of recoveries, of this obligation is $570,068 of which $37,040 is included in wages payable as a current liability.

11. Commitments

The Commission occupies leased office buildings and storage space in Fort St. John, Fort Nelson, Kamloops, Dawson Creek and Victoria and has entered into a number of short-term leases and support agreements for vehicles, office equipment, and software development and licensing.

11. Commitments (continued)

The Commission's total fiscal year commitments are:

Fiscal Year	Contracts	First Nations	Total
2009/10	3,574	880	**4,454**
2010/11	1,959	880	**2,839**
2011/12	1,882	880	**2,762**
2012/13	1,826	880	**2,706**
	9,241	3,520	**12,761**

As well, the Commission has signed Consultation Agreements with a number of First Nations communities, which commits the Commission to minimum payments as above, and further amounts based on the number of well applications received by the Commission. Estimated payments for fiscal 2010 are $8.2 million (fiscal 2011 - $8.4 million; fiscal 2012 - $8.7 million).

12. Contingent Liability

Litigation and Claims

The Commission is contingently liable with respect to pending litigation and claims in the normal course of business. In addition, the Commission has been named as a party along with the Crown in a legal action or unspecified damages. The outcome of this claim is currently not determinable. In the opinion of management, any other liability that may arise would not have a material effect on the Commission's consolidated financial position or results of operations.

13. Related Party Transactions

The Commission is related to all Province of British Columbia ministries, agencies and Crown corporations. The consolidated financial statements include the following related party transactions:

	2009	2008
Revenues from the province		
Contract reimbursement	**322**	666
Salary costs	**17**	139
	339	1,123
Expenses		
Contract costs	**-**	221
Building occupancy	**1,608**	1,165
Professional services and training	**551**	256
Telecommunications and info systems	**328**	141
Travel and vehicle costs	**420**	335
Office supplies and equipment	**750**	63
	3,657	2,181

14. First Nations Payments

The Commission has entered into Agreements or Memorandums of Understanding (MOUs) with the following First Nations. During the life of the MOUs and Agreements, each First Nation will receive payments based on current well activities. These payments are for consultation services on applications as required by the *Oil and Gas Commission Act*.

Payments to:	Agreements Expire	2009	2008
Blueberry River First Nations	March 31, 2020	**1,002**	788
Doig River First Nation	March 31, 2011	**978**	788
Dene Tha' First Nation	September 30, 2011	**540**	460
Fort Nelson First Nation	March 31, 2011	**978**	788
Halfway River First Nation	March 31, 2011	**978**	788
McLeod Lake Indian Band	April 30, 2011	**1,187**	1,011
Prophet River First Nation	March 31, 2011	**978**	788
Saulteau First Nations	March 31, 2011	**1,065**	828
West Moberly First Nations	March 31, 2011	**1,088**	853
Ktunaxa First Nation	March 31, 2010	**3**	11
		8,797	7,103

15. Comparative Figures

Certain comparative figures have been restated to conform to the presentations used in the current year.

Information on Subsidiaries

Not applicable

Operating Segment Information

Not applicable

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